

July 04, 2024

Aye Finance (P) Ltd.: Rating confirmed as final for PTCs backed by unsecured business loan receivables issued by SBL Mrinalini 0424

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
SBL Mrinalini 0424	PTC Series A1	76.76	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In May 2024, ICRA had assigned a provisional rating to the pass-through certificates (PTCs) Series A1 issued by SBL Mrinalini 0424 under a securitisation transaction originated by Aye Finance (P) Ltd. (AFPL/Originator). The PTCs are backed by a pool of unsecured business loan (BL) receivables originated by AFPL with aggregate principal outstanding of Rs. 83.07 crore (pool receivables of Rs. 108.03 crore). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

Pool performance summary

Parameter	SBL Mrinalini 0424
Payout month	June 2024
Months post securitisation	2
Pool amortisation	8.5%
PTC Series A1 amortisation	9.2%
Cumulative collection efficiency	98.7%
Cumulative prepayment rate	1.5%
Loss-cum-0+ dpd	0.7%
Loss-cum-30+ dpd	0.0%
Loss-cum-90+ dpd	0.0%
Cumulative cash collateral utilisation	0.0%

Transaction Structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of PTC Series A1 principal.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 8.90% of the initial pool principal amounting to Rs. 7.39 crore provided by the Originator, (ii) subordination of 7.60% of the initial pool principal for PTC Series A1, and (iii) the entire EIS of 20.88% of the initial pool principal for PTC Series A1.

Key rating drivers and their descriptions

Credit strengths

Granular pool supported by presence of credit enhancement - The pool as on cut-off date is granular, consisting of 6,781 contracts, with no contract exceeding 1% of the pool principal (or top 10 contracts forming only 2.7% of the pool principal),

thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool - The pool has been filtered in such a manner that there were no overdue contracts as on the cut-off date. Further, none of the contracts in the pool have ever been delinquent, which is a credit positive.

Seasoned contracts in the pool -The pool has amortised by almost 19% with seasoning of ~7 months as on the cut-off date thereby reflecting the borrowers’ better credit profile, repayment track record and buildup of borrower equity.

Credit challenges

Moderate share of high interest rate contracts - The pool has ~45% (in terms of the principal amount outstanding on the cut-off date) of contracts with interest rate more than 28%. Contracts with high rate of interest are more considered riskier as they typically indicate weaker credit profile of borrower.

Risks associated with lending business - The pool’s performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recovery from delinquent contracts tends to be lower.

Key rating assumptions

ICRA’s cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator’s loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA’s cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 5.0% of the initial pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 3% to 12.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	SBL Mrinalini 0424
Originator	AFPL
Servicer	AFPL
Trustee	Catalyst Trusteeship Limited
CC Bank	ICICI Bank Limited
Collection and payout account Bank	Kotak Mahindra Bank

Liquidity position: Strong

The liquidity for PTC Series A1 is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~5.50 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the CE.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency of less than 90%), leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer (AFPL) could also exert pressure on the rating.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the Originator

Aye Finance (P) Ltd. is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking non-banking financial company (ND-NBFC). It provides loans to micro-enterprises in semi-urban areas with an annual turnover of Rs. 10 lakh-1 crore. The company commenced operations in FY2014 and is promoted by Mr. Sanjay Sharma and Mr. Vikram Jetley, who have experience in retail lending. Aye Finance is backed by strong private equity investors – Capital G (Google Capital), Falcon Edge Capital, Elevation Capital, A91 Partners, LGT Impact, MAS Invest and others.

Key financial indicators (standalone)

	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	441.4	636.8	1,071.8
Profit after tax	-45.7	53.8	160.7
Total managed assets	2,370.8	3,305.6	4,472.8
Gross stage 3	3.3%	2.5%	3.2%
CRAR	36.0%	31.1%	32.8%

Source: AFPL, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years			
			Amount Rated (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				July 04, 2024	May 02, 2024			
1	SBL Mrinalini 0424	PTC Series A1	76.76	[ICRA]AA(SO)	[ICRA]AA(SO)	-	-	-
					Provisional)			

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [click here](#)

Annexure I: Instrument details

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
SBL Mrinalini 0424	PTC Series A1	April 26, 2024	10.25%	October 22, 2026	76.76	[ICRA]AA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Advait Athavale

+91 22 6114 3433

advait.athavale@icraindia.com

Ritu Rita

+91 22 6114 3409

ritu.rita@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6169 3304

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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