

October 04, 2024

Aye Finance (P) Ltd.: [ICRA]A (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term Bank facilities – Unallocated	50.00	[ICRA]A (Stable); assigned
Total	50.00	

*Instrument details are provided in Annexure I

Rationale

The assigned rating factors in Aye Finance Private Limited's (Aye Finance) comfortable capitalisation profile along with the improvement in its scale of operations and earnings profile. The company has been raising equity capital regularly to support its growth and is comfortably capitalised to meet its envisaged growth over the near-to-medium term. The most recent capital infusion was Rs. 250 crore in Q2 FY2025. Aye Finance has been able to scale up its assets under management (AUM) at a compound annual growth rate of 46% during FY2018-FY2024 to Rs. 4,473 crore as on March 31, 2024 (Rs. 4,772 crore as on June 30, 2024). Also, its earnings profile has been improving with scale and operating efficiency. The company reported a profit after tax (PAT) of Rs. 161 crore in FY2024 (Rs. 61 crore in Q1 FY2025), translating into a return of 3.7% on average managed assets (AMA) and 16.1% on average net worth compared to Rs. 54 crore, 1.9% and 7.3%, respectively, in FY2023. ICRA expects the trend to continue with further improvement in the operating efficiency.

The rating is, however, constrained by Aye Finance's moderate asset quality indicators. The company's gross stage 3 assets (GS-3) stood at 3.3% as on June 30, 2024. Additionally, it has exposure to security receipts (0.4% of on-book portfolio) with respect to the delinquent portfolio sold in FY2022 and FY2023. A major part of Aye Finance's AUM comprised hypothecation loans (around 89%) as on June 30, 2024. Given the marginal borrower profile, primarily consisting of self-employed customers, and the assessed income-based lending model, the segment remains susceptible to income shocks, which has led to higher delinquencies in the past. However, ICRA factors in Aye Finance's track record of operations in this segment.

The Stable outlook on the rating reflects ICRA's opinion that Aye Finance will be able to continue scaling up its operations while maintaining a comfortable capitalisation profile and a healthy earnings profile.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile – Aye Finance's capital-to-risk weighted assets ratio (CRAR) of 32.9%, as on June 30, 2024, was well above the regulatory requirement. With a net worth of Rs. 1,297 crore, the managed gearing stood at 3.5 times as on June 30, 2024. The company has been raising equity capital regularly to support its growth plans; the most recent capital infusion was Rs. 250 crore in September 2024. In ICRA's opinion, given the recent capital raise, Aye Finance is comfortably capitalised to meet its envisaged growth over the near-to-medium term.

Improving earnings profile – The company's earnings profile has been improving, led by the increase in the scale and the enhanced operating efficiency. It reported a PAT of Rs. 161 crore in FY2024 (Rs. 61 crore in Q1 FY2025), translating into a return of 3.7% on AMA and 16.1% on average net worth compared to Rs. 54 crore, 1.9% and 7.3%, respectively, in FY2023. With the improvement in yields, Aye Finance has been able to maintain healthy net interest margins despite the increase in the cost of funding. Given the target borrower segment, credit costs remained elevated at 3.0% of AMA in FY2024 (2.6% in FY2023), though operating expenses moderated to 8.8% of AMA in FY2024 from 10.3% in FY2023 with the improvement in the scale of operations. ICRA expects the company to maintain healthy net interest margins along with a gradual improvement in the

operating efficiency as it continues to scale up its operations. Aye Finance’s ability to control slippages and the consequent credit costs remains a key monitorable from a profitability perspective.

Credit challenges

Moderate asset quality indicators – Aye Finance’s asset quality weakened in FY2022 owing to the Covid-19 pandemic-led disruptions. However, given the increase in write-offs during FY2022-FY2023 and the sale of the portfolio to an asset reconstruction company (ARC), the GS-3 declined to 2.5% as on March 31, 2023 from the high level of 7.7% as on December 31, 2021. The company’s GS-3 increased to 3.3% as on June 30, 2024 due to higher slippages. Additionally, it has exposure to security receipts (0.4% of on-book portfolio) with respect to the delinquent portfolio sold in FY2022 and FY2023. Nevertheless, it had a provision coverage ratio (PCR) of around 75% on the GS-3 as on June 30, 2024 and the net stage 3 (NS-3) was lower at 0.9% as on June 30, 2024. Aye Finance’s ability to arrest further slippages and achieve recoveries from its delinquent portfolio, as it continues to scale up its operations, would remain a key monitorable from a credit perspective.

Marginal borrower profile with susceptibility to income shocks – Aye Finance primarily lends to micro businesses like kiranas/general stores, dairies, manufacturers and traders with an annual turnover of Rs. 10 lakh-1 crore. With an average ticket size of Rs. 1-1.5 lakh, hypothecation loans and quasi-mortgage loans comprised 92% of the AUM as on June 30, 2024. The customers in this segment typically have limited credit history and their cash flows could be volatile and highly sensitive to minor business disruptions and external shocks. Also, such borrowers would have limited financial flexibility to pay more than one or two instalments at a time. Given the marginal borrower profile, comprising mostly self-employed customers, and the assessed income-based lending model, the segment remains susceptible to income shocks, which has led to higher delinquencies and volatility in the asset quality. ICRA notes that the company is gradually scaling up its mortgage loan portfolio and plans to increase its share in the AUM to 15-20% in the near-to-medium term from 8% as on June 30, 2024.

Liquidity position: Adequate

The company’s liquidity profile is adequate with unencumbered on-book liquidity of Rs. 935 crore as on June 30, 2024. This, along with the scheduled collections of Rs. 2,015 crore till June 30, 2025, is sufficient to meet the scheduled debt obligations of Rs. 2,004 crore during this period. The presence of sanctioned unutilised funding lines also support the liquidity profile. As per Aye Finance’s asset-liability management (ALM) statement as on June 30, 2024, there were no cumulative mismatches across buckets.

Rating sensitivities

Positive factors – A sustainable increase in the scale of operations, while maintaining adequate profitability and keeping the asset quality and capitalisation at prudent levels, could positively impact the rating.

Negative factors – A sustained deterioration in the asset quality (90+ days past due (dpd)/AUM beyond 5%), thereby impacting the profitability, could put pressure on the rating. A sustained increase in the managed gearing above 4.5 times or a deterioration in the liquidity profile could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Aye Finance Private Limited (Aye Finance) is a non-banking financial company, which provides loans to micro and small enterprises in semi-urban areas with an annual turnover of Rs. 10 lakh-1 crore. Aye Finance offers loans either through hypothecation of working assets (89% of AUM as on June 30, 2024) or through mortgage properties (mortgage loan and quasi-mortgage loan constituting 8% and 3% of AUM respectively as on June 30, 2024). Secured loans comprised 60% of the on-book portfolio as on March 31, 2024. The company commenced operations in FY2014 and is founded under the leadership of Mr. Sanjay Sharma who has experience in retail lending. Aye Finance is backed by private equity investors – Capital G (Google), Falcon Edge, SAIF Partners (Elevation), A91 Partners, LGT Impact, Maj Invest, British International Investments, ABC Impact and others. As on June 30, 2024, the company had operations in 21 states/Union Territories through 478 branches, managing a portfolio of Rs. 4,772 crore.

Key financial indicators (audited)

Aye Finance (P) Ltd.	FY2023	FY2024	Q1 FY2025*
Accounting as per	IndAS	IndAS	IndAS
Total income	637	1,066	349
PAT	54	161	61
Total managed assets	3,315	5,360	6,105
Return on managed assets	1.9%	3.7%	4.3%
Managed gearing (times)	3.2	3.1	3.5
Gross stage 3 assets	2.5%	3.2%	3.3%
CRAR	31.1%	32.8%	32.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; *Limited review; Amount in Rs. crore
 Managed gearing = (on-book debt + off-book portfolio) / net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Chronology of Rating History for the Past 3 Years						
		Current Rating (FY2025)			Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
		Type	Amount (Rs. crore)	Oct-4-2024	May-19-2023	Mar-15-2023	Jan-27-2023	Jan-28-2022
1	Long term Bank facilities-unallocated	Long term	50.00	[ICRA]A (Stable)	-	-	-	-
2	Non-convertible debentures	Long term	-	-	[ICRA]BBB+ (Positive); withdrawn	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
3	Non-convertible debentures	Long term	-	-	-	[ICRA]BBB+ (Positive); withdrawn	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
4	Non-convertible debentures	Long term	-	-	-	-	[ICRA]BBB+ (Positive); withdrawn	[ICRA]BBB+ (Stable)
5	Term loans	Long term	-	-	-	-	-	[ICRA]BBB+ (Stable); withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term Bank facilities - unallocated	Not applicable

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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term Bank facilities – Unallocated	NA	NA	NA	50.00	[ICRA]A (Stable)

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Not applicable

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Branches



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