

Mr. Krishan Gopal
Chief Financial Officer
Aye Finance (P) Ltd.
7th Floor, Unitech Commercial Tower-2,
Sector 45, Gurgaon 122003

August 22, 2023

Dear Sir/Madam,

Re: Rating Letter for non-convertible debenture (NCD) programme of Aye Finance Private Limited

India Ratings and Research (Ind-Ra) is pleased to communicate the rating of:

INR 11,508.3 million Non-Convertible debentures: IND A-/ Stable

In issuing and maintaining its ratings, India Ratings relies on factual information it receives from issuers and underwriters and from other sources India Ratings believes to be credible. India Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security.

The manner of India Ratings' factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in India where the rated security is offered and sold, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors

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India Ratings seeks to continuously improve its ratings criteria and methodologies, and periodically updates the descriptions on its website of its criteria and methodologies for securities of a given type. The criteria and methodology used to determine a rating action are those in effect at the time the rating action is taken, which for public ratings is the date of the related rating action commentary. Each rating action commentary provides information about the criteria and methodology used to arrive at the stated rating, which may differ from the general criteria and methodology for the applicable security type posted on the website at a given time. For this reason, you should always consult the applicable rating action commentary for the most accurate information on the basis of any given public rating.

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It will be important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason India Ratings deems sufficient.

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between India Ratings and you or between India Ratings and any user of the ratings.

In this letter, "India Ratings" means India Ratings & Research Pvt. Ltd. and any successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings


Karan Gupta
Director


Rakesh Valecha
Senior Director

Annexure: ISIN

Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Ratings	Outstanding/Rated Amount(INR million)
NCDs	INE501X07232	08/12/2020	10.7	13/05/2024	IND A-/Stable	0.08
NCDs	INE501X07042	29/08/2017	13.5	29/08/2023	IND A-/Stable	440
NCDs	INE501X08032	06/03/2019	12.14	06/03/2024	IND A-/Stable	200
NCDs	INE501X07166	08/11/2019	12.5	08/11/2024	IND A-/Stable	414
NCDs	INE501X07125	26/06/2019	13	26/06/2025	IND A-/Stable	350
NCDs	INE501X07257	21/12/2021	10.2	21/06/2025	IND A-/Stable	222.216
NCDs	INE501X08057	28/02/2022	11.35	15/03/2025	IND A-/Stable	375
NCDs	INE501X07265	24/03/2022	Coupon linked to 3M TBILL LINKED	24/03/2024	IND A-/Stable	250
NCDs	INE501X07299	29/07/2022	11.16	28/07/2027	IND A-/Stable	310
NCDs	INE501X07315	20/09/2022	11.2	20/09/2027	IND A-/Stable	260
NCDs	INE501X07331	13/09/2022	11	08/03/2028	IND A-/Stable	654.5
NCDs	INE501X07349	15/11/2022	11.85	15/11/2027	IND A-/Stable	310
NCDs	INE501X07364	06/12/2022	11.75	31/07/2025	IND A-/Stable	150
NCDs	INE501X08073	13/12/2022	12.13	31/12/2024	IND A-/Stable	234
NCDs	INE501X07398	15/02/2023	11.25	15/05/2025	IND A-/Stable	270

NCDs	INE501X07380	08/02/2023	11.25	08/05/2025	IND A-/Stable	150
NCDs	INE501X07372	24/01/2023	10.5	25/04/2024	IND A-/Stable	500
NCDs	INE501X07406	24/03/2023	10.70	31/03/2025	IND A-/Stable	338
NCDs	INE501X07422	11/04/2023	10.59	25/07/2024	IND A-/Stable	300
NCDs	INE501X07414	12/05/2022	10	06/05/2024	IND A-/Stable	1000
NCDs	INE501X07430	18/05/2023	10.70	30/04/2025	IND A-/Stable	372
NCDs					IND A-/Stable	4408,504



India Ratings Assigns Aye Finance's Additional NCDs & Bank Loans 'IND A-/Stable; Affirms Existing Ratings

Mar 17, 2023 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has taken the following rating actions on Aye Finance Private Limited (Aye):

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term Issuer Rating	-	-	-	-	IND A-/Stable	Affirmed
Non-convertible debentures (NCDs)*	-	-	-	INR5,000	IND A-/Stable	Assigned
NCDs*	-	-	-	INR7,488.3	IND A-/Stable	Affirmed
Long-term bank loans	-	-	-	INR3,000	IND A-/Stable	Affirmed
Long-term bank loans	-	-	-	INR1,000	IND A-/Stable	Assigned
Commercial papers (CP)	-	-	Up to one year	INR500	IND A2+	Affirmed
Principal protected market-linked debentures (PP-MLD)*	-	-	-	INR2,100	IND PP-MLD A-/Stable	Affirmed

*Details in Annexure

The rating of the market-linked debentures is an ordinal assessment of the underlying credit risk of the instrument and does not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that coupon payment on the instrument will be based on the performance of a reference index or equity share (detailed in the information memorandum of the issue). PP-MLD refers to full principal protection in the equity-linked notes, wherein the issuer is obligated to pay the full principal upon maturity.

Key Rating Drivers

Experienced Management; Marquee Shareholders: Aye derives strength from its marquee shareholders and their demonstrated track record of capital infusions, which drive the company's growth prospects. Aye is backed by strong private equity players such as Elevation Capital (19.86% holding on diluted basis, as of December 2022), LGT Capital (17.38%), Capital G (16.43%), Falcon Edge (13.32%), A91 (10.32%) and MAJ Invest (7.11%). Apart from these, as of December 2022, the founder, Sanjay Sharma held 3.16% stake in the company; the remaining was held by the employee welfare trust (1.81%) and others.

The investors maintain adequate oversight with board representation (the five largest investors mentioned above have board representation), supporting technological initiatives and providing strategic inputs to the management team. Moreover, Aye's founding members have over two decades of experience in retail lending and are supported by an experienced second line of management to drive the business.

Adequate Capital Buffers: Aye had last raised equity capital of INR2.1 billion in 1QFY21. This had enabled it to enhance its net worth to INR7.43 billion as of December 2022 (FY22: INR7.06 billion, FY21: INR7.46 billion) and navigate the COVID-19-led crisis. The company's capitalisation levels are adequate to meet its medium-term growth objectives while maintaining the leverage (debt/equity) below 4.0x (3QFY23: 2.4x, FY22: 2.1x, FY21: 1.8x). As per Ind-Ra's stress test, the capital buffers remain adequate to absorb asset quality pressure in the near-to-medium term.

Portfolio Skewed towards Unsecured Category, but Granular and Geographically Diversified: Aye's lending is based on the cluster approach. The company lends to micro enterprises, largely in the manufacturing, trading, dairy (livestock) and services segments, with modest credit profiles (turnover of INR1 million-10 million) for their working capital requirements. However, the company mainly focuses on the trading, and agriculture and livestock categories. Aye's product portfolio has two large segments – hypothecation loans and quasi-mortgage loans. Hypothecation loans formed 93.7% and quasi-mortgage loans formed 5.3% of the overall assets under management in 3QFY23. The largest part (96%) of the portfolio had a ticket size of less than INR0.3 million in 3QFY23, with an average ticket size of about INR0.1 million. Geographically, the portfolio is well diversified, with the top four states - Uttar Pradesh (15.7%), Rajasthan (13.6%), Bihar (10.9%), and Madhya Pradesh (8.2%) - accounting for 48.4% of the combined exposure, with the remaining spread across 16 states. The branch network has expanded further, with 397 branches at 3QFYE23, adding to the operational expenses.

Aye follows a high touch model, with a large team across collection and origination, along with the adoption of technology in improving the turnaround time. Aye follows a paperless approach, and has developed an analytical system and monitoring process to capture the cash flows of micro enterprises in a digitised form. While the initial onboarding-to-disbursement process is completely integrated digitally, the company has built a large ground-level staff to drive collections. Aye has segmented customer profiles based on their business clusters, with micro-level understanding on business margins and assessing the cash flows of borrowers.

Funding Profile Needs Further Diversification to Increase Liability Duration: Aye's funding is skewed towards capital markets instruments, with NCDs forming 32.7% of the overall funding at 3QFYE23, followed by securitisation (20.5%), term loans from financial institutions (14.6%) and external commercial borrowings (13.4%). Over the years, Aye has established relations with a diversified set of lenders/investors, and its external borrowings are funded through about 35 lenders/investors. Aye raised debt of INR5.70 billion in 3QFY23 from all the lender types through various routes.

Operating Efficiency and Control on Credit Costs to Drive Profitability: Aye's earning profile is impeded by heavy operating expenses, due to its branch-based lending model and retail nature of operations. The company has been expanding its branch network and has put in place adequate systems and processes to support its growth prospects. The operating expense levels are likely to normalise once the company scales up its operations, improving operating efficiency and branch profitability. The operating expenditure-to-asset ratio increased to 12.2% in 3QFY23 (2QFY23: 11.6%; FY22: 10.1%), with cautious incremental disbursements. After deteriorating to 0.5x in FY22 due to higher credit costs and write-offs because of the second wave of pandemic, Aye's pre-provisioning operating profit-to-credit cost ratio improved to 1.7x in 3QFY23.

Ind-Ra believes the company will benefit from the economies of scale with the likely growth in portfolio. The credit costs might normalise by end-FY23 in case of an improvement in the prevailing challenging environment and a continued improvement in the collection levels.

Liquidity Indicator - Adequate: Aye's asset liability profile is supported by its adequate buffers available between funding duration of over three years and assets-side duration of about two-and-a-half-years. As of February 2023, the company had unencumbered cash and cash equivalents and liquid investments of around INR3.5 billion; the agency believes this will be sufficient to meet the debt obligations of INR2.2 billion (total outflows over the next three months) assuming nil collections and disbursements. The entity also had undrawn lines of INR0.21 billion as of February 2023. The asset-liability profile remained matched across buckets for Aye at 3QFY23. Aye also has plans to raise equity in FY23 from existing and new shareholders.

Asset Quality Stabilising Post Pandemic Impact: Having adopted a cluster-based lending approach, Aye witnessed a rise in delinquencies in certain clusters in FY22 due to the pandemic. In terms of industry segments, the portfolio was split in the following manner as of December 2022: trading: 44.2%, livestock rearing: 37.3%, manufacturing: 10.4%, services: 5.7%, and job work: 2.5%. With the resumption of economic activities since 1QFY22, the operating environment had largely normalised. As a result, Aye's asset quality on owned book started to improve, with 0+ days past due (DPD) standing at 7.14% at 3QFY23 (3QFY22: 16.7%). Furthermore, the collection efficiency improved to 99.6% in 3QFY23 (3QFY22: 96.4%), supported by a strengthened in-house collection team. The company's gross non-performing assets increased to 4.2% in 3QFY23 (2QFY23: 3.9%), largely attributable to the implementation of new NPA norms (with respect to NPA recognition upon 90+ DPD and upgradation of NPA accounts only post all dues being cleared). The gross stage 3 asset stood at 3.56% in 3QFY23 (FY22: 3.3%) and net stage 3 stood at 1.8% (1.4%).

The company aggressively writes-off accounts in the 360+ DPD bucket. The write-offs for FY22 amounted to INR1.13 billion. On a blended basis, Aye's provision coverage ratio of 43.2% (2QFY23: 43.2%) for stage 3 assets remained flat in 3QFY23, which led to the net NPA rising to 2.41% (2QFY23: 2.1%; FY22: 1.4%). As of December 2022, the company's standard restructured assets accounted for 1.8% of its assets under management.

Ind-Ra believes Aye's credit profile is supported by its granular book. However, the asset quality will be a key monitorable, given the prevailing challenging environment. In Ind-Ra's stress case scenario, the company's capitalisation remains adequate to absorb increased credit cost due to asset quality headwinds, if any.

Rating Sensitivities

Positive: Expansion in the franchisee, increased diversification along funding sources across banks, with sustained asset quality metrics and benefit of operating leverage improving profitability buffers, along with maintaining of capital buffers will be key triggers for a rating upgrade.

Negative: The following developments, individually or collectively, could lead to a negative rating action:

- non-availability of external funding or growth capital,
- the leverage exceeding 4.0x due to weakening of asset quality or otherwise,
- weakened operating performance,
- significant deterioration in the asset quality with a sustained rise in net NPA to above 3%.
- deterioration in liquidity buffers (minimum three months' buffers to be maintained)

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Aye, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

Company Profile

Aye is a non-banking finance company that commenced operations in 2014, with an objective to tap the underpenetrated segment of micro and small businesses. The company follows a cluster-based approach, with 397 branches across 21 states as of December 2022. |

FINANCIAL SUMMARY

Particulars	9MFY23	FY22	FY21
Total assets (INR billion)	26.3	23.1	21.3
Total equity (INR billion)	7.4	7.1	7.4
Net profit/loss (INR billion)	0.33	-0.5	0.169
Equity/assets (%)	28.2	30.6	34.9
Gross NPAs (%)	4.2*	3.3	3.3
Leverage (x)	2.4	1.4	1.8
Tier 1 ratio (%)	33.3	36.0	42.2
Source: Ind-Ra; Aye,* based on IRAC norms			

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook								
	Rating Type	Rated Limits (million)	Rating	16 January 2023	16 November 2022	26 August 2022	23 March 2022	1 February 2022	16 March 2021	5 August 2020	16 March 2020	Nov ;
Issuer rating	Long-term	-	IND A-Stable	IND A-Stable	IND A-Stable	IND A-Stable	IND A-Stable	IND A-Stable	IND A-/Stable	IND A-Stable	IND A-Stable	BBB
NCDs	Long-term	INR 12,488.3	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	BBB

Long-term bank loans	Long-term	INR 4,000	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	IND A-/Stable	
CPs	Short-term	INR500	IND A2+	IND A2+	IND A2+	IND A2+	IND A2+	-	-	-	-	
PP-MLDs	Long-Term	INR 2,100	IND PP-MLD A-/Stable	IND PP-MLD A-/Stable	IND PP-MLD A-/Stable	IND PP-MLD A-/Stable	IND PP-MLD A-/Stable	-	-	-	-	

Annexure

NCDs

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
INE501X07232	8 December 2020	10.7	13 May 2024	INR0.08	IND A-/Stable
◀ INE501X07174	29 November 2019	12.9	29 November 2022	INR1,070	WD (Paid in full) ▶
INE501X07067	28 March 2018	12.59	28 March 2023	INR300	IND A-/Stable
INE501X07182	31 March 2020	12.75	31 March 2023	INR580	IND A-/Stable
INE501X07190	22 May 2020	13.5	22 May 2023	INR250	IND A-/Stable
INE501X07042	29 August 2017	13.5	29 August 2023	INR440	IND A-/Stable
INE501X08032	6 March 2019	12.14	6 March 2024	INR200	IND A-/Stable
INE501X07166	8 November 2019	12.5	8 November 2024	INR414	IND A-/Stable
INE501X07125	26 June 2019	13	26 June 2025	INR350	IND A-/Stable
INE501X07257	21 December 2021	10.2	21 June 2025	INR222.216	IND A-/Stable
INE501X08057	28 February 2022	11.35	15 March 2025	INR375	IND A-/Stable
INE501X08065	29 March 2022	11.25	30 April 2023	INR100	IND A-/Stable
INE501X07265	24 March 2022	Coupon linked to 3M TBILL LINKED	24 March 2024	INR250	IND A-/Stable
INE501X07299	29 July 2022	11.16	28 July 2027	INR310	IND A-/Stable
INE501X07315	20 September 2022	11.20	20 September 2027	INR260	IND A-/Stable
INE501X07331	13 September 2022	11.00	8 March 2028	INR654.50	IND A-/Stable
INE501X07349	15 November 2022	11.85	15 November 2027	INR310	IND A-/Stable
INE501X07364	6 December 2022	11.75	31 July 2025	INR150	IND A-/Stable

INE501X08073	13 December 2022	12.13	31 December 2024	INR234	IND A-/Stable
Limit utilised				INR5,399.8	
Limit unutilised				INR7,088.5	
Total				INR12,488.3	

PP-MLDs

ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
INE501X07273	25 March 2022	Coupon linked to the official 10-year GSEC linked	25 September 2023	INR150	IND PP-MLD A-/Stable
INE501X07281	25 March 2022	Coupon linked to the official 10-year GSEC linked	25 March 2024	INR150	IND PP-MLD A-/Stable
INE501X07307	5 September 2022	Coupon linked to the official 10-year GSEC linked G-Sec 2032 IN0020210244	5 March 2024	INR500	IND PP-MLD A-/Stable
INE501X07323	28 September 2022	Coupon linked to the official 10-year GSEC linked G-Sec 2030 IN0020200070	27 March 2024	INR250	IND PP-MLD A-/Stable
INE501X07356	5 December 2022	Coupon linked to the official 10-year GSEC 2032 ISIN: IN0020210244	5 June 2024	INR1000	IND PP-MLD A-/Stable
Limit utilised				INR2,050	
Limit unutilised				INR50	
Total				INR2,100	

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Level
NCDs	Low
Bank loans	Low
CP	Low
PP-MLDs	High

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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APPLICABLE CRITERIA

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

The Rating Process

Evaluating Corporate Governance

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