

**India Ratings Upgrades Aye Finance & its NCDs to ‘IND A’/Stable; Affirms CP at ‘IND A1’; Rates Additional NCDs and Bank Loans**

Jul 19, 2024 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has upgraded Aye Finance Private Limited’s (Aye) Long-Term Issuer Rating to ‘IND A’ from ‘IND A-’. The Outlook is Stable. The instrument-wise rating actions are as follows:

**Details of Instruments**

| Instrument Type                               | Date of Issuance | Coupon Rate | Maturity Date  | Size of Issue (million)                | Rating assigned along with Outlook/ Watch | Rating Action |
|-----------------------------------------------|------------------|-------------|----------------|----------------------------------------|-------------------------------------------|---------------|
| Issuer rating                                 | -                | -           | -              | -                                      | IND A/Stable                              | Upgraded      |
| Non-convertible debentures*                   | -                | -           | -              | INR6,000                               | IND A/Stable                              | Assigned      |
| Non-convertible debentures*                   | -                | -           | -              | INR13,084.5 (reduced from INR14,291.6) | IND A/Stable                              | Upgraded      |
| Commercial papers                             | -                | -           | Up to one year | INR500                                 | IND A1                                    | Affirmed      |
| Principal protected market-linked debentures# | -                | -           | -              | INR50                                  | IND PP-MLD A/Stable                       | Upgraded      |
| Long-term bank loans                          | -                | -           | -              | INR3,000                               | IND A/Stable                              | Assigned      |
| Long-term bank loans                          | -                | -           | -              | INR7,000                               | IND A/Stable                              | Upgraded      |

\*Details in Annexure

# Yet to be utilised

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.

**Analytical Approach**

Ind-Ra continues to take a standalone view of Aye to arrive at the ratings.

**Detailed Rationale of the Rating Action**

The upgrade reflects improved capitalisation with equity raise, diversified funding profile with an increase in share of bank funding in the overall mix, reclassification of assets under management (AUM) with a substantial share of secured book compared to the earlier mix, seasoned book and improved profitability buffers. The ratings also factor in Aye’s unsecured book and higher operating expense compared to peers’. The rating of commercial papers (CP) reflects Aye’s improved

profitability and capital, along with adequate liquidity during FY24. The company had surplus all-time buckets at end-May 2024 and Ind-Ra assumes the company to have reasonable liquidity in case of a stress situation.

## List of Key Rating Drivers

### Strengths

- Re-statingof loan book with improving share of secured portion; focus on growing mortgage book.
- Improved capitalisation provides headroom for further scaling of franchise
- Experienced management, marquee shareholders
- Improving profitability with rise in scale to drive operating leverage benefits
- Improving funding diversification
- Established information technology (IT) systems and processes

### Weaknesses

- Substantial share of unsecured portfolio where asset quality could be volatile with economic cycles

## Detailed Description of Key Rating Drivers

**Restating of Loan Book with Improving Share of Secured Portion; Focus on Growing Mortgage Book:** Aye classified 59.9% of the overall portfolio as secured, considering mortgage and hypothecation of underlying inventory and receivables, while the remaining as unsecured at FYE24. It lends on the cluster-based credit underwriting 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 its working capital requirements and business expansion. These loans are either covered by immovable property or through hypothecation of the working assets of the borrower.

In terms of industry segments, the portfolio was split into trading (47.7%), livestock rearing (32.3%), manufacturing (10.6%), services (6.9%), and job work (2.4%) at end-May 2024. Aye’s product portfolio comprises of hypothecation loans, mortgage loans and quasi-mortgage loans. Hypothecation loans formed 89.5% of the overall AUM at end-May 2024, followed by mortgage loans (8%) and quasi-mortgage loans (2.5%). The company’s AUM stood at INR46.7 billion at end-May 2024 (FY24: INR44.7 billion; FY23: INR27.21 billion; FY22: INR17.3 billion). The largest part (90.3%) of the portfolio had a ticket size of less than INR0.3 million in May 2024, with an average ticket size of about INR0.1 million. Geographically, the portfolio is well diversified, with the top four states - Uttar Pradesh (14.0%), Rajasthan (12.2%), Bihar (13.7%), and Madhya Pradesh (7.1%) - accounting for 47% of the combined exposure, with the remaining spread across 17 states. The company had a network of 478 branches at FYE24.

**Improved Capitalisation Provides Headroom for Further Scaling of Franchise:** With the company raising capital worth INR3.1 billion during FY24 by marquee investors - British International Investment, Waterfield Alternative Investment Fund and A91 Partners in January 2024, the tangible net worth (net of deferred tax assets and intangible assets) improved to INR11.88 billion (FY23: INR7.38 billion; FY22: INR6.57 billion).

The company’s improved capital levels provide it a headroom for loan growth and the scaling of franchise. Moreover, the company’s capitalisation levels are adequate to meet its medium-term growth objectives, while maintaining the leverage (debt/equity) below 4.0x (FY24: 2.9x; FY23: 3.1x; FY22: 2.3x). As per Ind-Ra’s stress test, the capital buffers will remain adequate to absorb asset quality pressure in the near-to-medium term.

**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 (16.50% holding on a diluted basis on 24 June 2024), Lightrock Capital (14.41%), Capital G (10.46%), Apha Wave India (formerly Falcon Edge; 11.43%), British International Investments Plc (10.15%), A91 (9.52%) and MAJ Invest (6.09%). Apart from these, on 24 June 2024, the founder group holds 9.64% (including Sanjay Sharma held a 5.12%) stake in the company, while the remaining was held by the employee welfare trust (1.49%) and others.

The investors maintain adequate oversight with board representation (the four 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. Also, the recent infusion from new and existing investors positions the company to expand the franchise in an improved operating environment.

**Improving Profitability Buffers with Rise in Scale to Drive Operating Leverage Benefits:** Aye operates through the branch-based lending model and follows a high-touch model to manage informal borrowers leading to a high operating expense. However, operating expense remains adequately covered by the risk-based pricing model adopted by Aye while lending to its borrowers. The company has expanded its branch network and has put in place adequate systems and processes to support its growth prospects. The branch profitability is improving due to normalising operating expense levels and improving operating efficiency. The operating expenditure-to-asset ratio moderated to 9.7% in FY24 (FY23: 11.2%; FY22: 10.5%). Aye's pre-provisioning operating profit-to-credit cost ratio improved to 2.7x in FY24 (FY23: 1.97x; FY22: 0.44x).

The company's return on assets improved to 4.1% in FY24 (FY23: 2%; FY22: negative 2.1%) due to healthy internal accruals from business growth, an improvement in collection efficiency and improved asset quality. Ind-Ra believes the company will benefit from the economies of scale with the likely growth in portfolio, along with the credit cost normalising further from FY24 levels.

**Improving Funding Diversification:** Aye has increased its share of bank term loan funding in the overall funding mix to 19.9% in FY24 (FY23: 4%) of the overall funding (ex- direct assignment). Aye's funding skewedness towards capital markets instruments has moderated, with non-convertible debentures (NCDs) forming 31.7% of the total debt ex- direct assignment at FYE24 (FYE23: 31.9%; FYE22: 60.6%), although lower than FY22, followed by securitisation 23% (24.8%; 7.2%), term loans from financial institutions 17.7% (19.2%; 10.5%) and external commercial borrowings 7.5% (11.4%; 13.6%). Over the years, Aye has established relations with a diversified set of lenders/investors, and its external borrowings are funded through about 57 lenders/investors at end-May 2024. The bank's share (including investment in pass-through certificates) in the overall borrowing mix excluding direct assignment increased to 31.4% at FYE24 (FYE23: 18.8%).

**Established IT Systems and Processes:** Aye follows a high touch model, with a large team across underwriting, collection and origination, along with the adoption of technology in improving the turnaround time. The company 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 large ground-level staff to drive collections and is continuously upgrading the system. Aye has segmented customer profiles based on their business clusters, with micro-level understanding on business margins and assessing the cash flows of borrowers.

**Substantial Share of Unsecured Portfolio where Asset Quality Could be Volatile with Economic Cycles:** Based on restated classification, Aye's unsecured portfolio stood at 40.1% in FY24 (FY23: 31.3%). The unsecured book largely related to livestock and few other segments of loan book, where there could be asset quality pressures with economic cycles. Any rise in unsecured portion of the book from hereon would also remain rating monitorable. With the betterment of operating environment, Aye's asset quality on owned book improved with 0+days past due (dpd) standing at 4.63% at FYE24 (FYE23: 5.37%). Furthermore, the overall collection efficiency improved to 98.99% in FY24 (FY23: 98.70%), supported by a strengthened in-house collection team. The company's gross non-performing assets (NPA) increased to 3.19% in FY24 (FY23: 2.49%; FY22: 3.29%) and net NPA stood at 0.93% (1.28%; 1.37%). However, along with healthy growth in its AUM, the company managed to keep the delinquencies under check along with maintaining adequate provision coverage of 72.1% in FY24 (FY23: 49.8%; FY22: 58.4%). At end-May 2024, the company's restructured assets accounted for about 0.14% of its AUM. While Ind-Ra believes Aye's credit profile is supported by its granular book, the asset quality remains key monitorable.

## Liquidity

**Adequate:** Aye's asset liability profile is supported by its adequate buffers available between the funding duration of over three years and the assets-side duration of about two-and-a-half-years. At end-May 2024, the company had unencumbered cash and cash equivalents, and liquid investments of around INR8.17 billion, along with an unutilised limit of INR0.79 billion. The agency believes this will be sufficient to meet the debt obligations of INR6.02 billion (over the next

three months from June to August 2024) assuming nil collections and disbursements. According to the asset-liability management statement at end-May 2024, the company was in a surplus position in all time buckets, with a cumulative surplus (excess of short-term assets over short-term liabilities in the up-to-one-year bucket) of 16.5% of the total assets. Even under Ind-Ra’s stress case, which assumes a delay in inflows, the liquidity profile is reasonable.

## Rating Sensitivities

**Positive:** A continued expansion in the franchisee, increased diversification along long-term funding sources from banks, with sustained asset quality metrics and benefit of operating leverage, driving the improvement in profitability buffers, along with maintaining of capital buffers will lead to a positive rating action.

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

- the non-availability of external funding or growth capital,
- the leverage exceeding 4.0x on a sustained basis due to a weakening of asset quality or otherwise,
- weakened operating performance,
- significant deterioration in the asset quality with a sustained rise in net NPA 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](#).

## About the Company

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 478 branches across 21 states at FYE24.

## Key Financial Indicators

| Particulars                         | FY24  | FY23 |
|-------------------------------------|-------|------|
| Total tangible assets (INR billion) | 48.3  | 31.1 |
| Total tangible equity (INR billion) | 11.9  | 7.4  |
| Net profit/loss (INR billion)       | 1.6   | 0.54 |
| Equity/assets (%)                   | 24.6  | 23.7 |
| Gross NPAs (%)                      | 3.19  | 2.49 |
| Leverage (x)                        | 2.9   | 3.1  |
| Tier 1 ratio (%)                    | 32.79 | 31.1 |
| Source: Ind-Ra; Aye                 |       |      |

## Status of Non-Cooperation with previous rating agency

Not applicable

## Rating History

| Instrument Type | Current Rating/Outlook |                        |        | Historical Rating/Outlook |               |                  |                |               |                 |                  |                |               |                 |
|-----------------|------------------------|------------------------|--------|---------------------------|---------------|------------------|----------------|---------------|-----------------|------------------|----------------|---------------|-----------------|
|                 | Rating Type            | Rated Limits (Million) | Rating | 22 May 2024               | 12 April 2024 | 20 February 2024 | 9 January 2024 | 17 March 2023 | 16 January 2023 | 16 November 2022 | 26 August 2022 | 23 March 2022 | 1 February 2022 |

|                                              |            |             |                     |                        |                        |                        |                        |                      |                         |                         |                         |                         |               |
|----------------------------------------------|------------|-------------|---------------------|------------------------|------------------------|------------------------|------------------------|----------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------|
| Issuer rating                                | Long-term  | -           | IND A/Stable        | IND A-/Positive        | IND A-/Positive        | IND A-/Positive        | IND A-/Positive        | IND A-Stable         | IND A-Stable            | IND A-Stable            | IND A-Stable            | IND A-Stable            | IND A-Stable  |
| Non-convertible debentures                   | Long-term  | INR19,084.5 | IND A/Stable        | IND A-/Positive        | IND A-/Positive        | IND A-/Positive        | IND A-/Positive        | IND A-/Stable        | IND A-/Stable           | IND A-/Stable           | IND A-/Stable           | IND A-/Stable           | IND A-/Stable |
| Long-term bank loans                         | Long-term  | INR10,000   | IND A/Stable        | IND A-/Positive        | IND A-/Positive        | IND A-/Positive        | IND A-/Positive        | IND A-/Stable        | IND A-/Stable           | IND A-/Stable           | IND A-/Stable           | IND A-/Stable           | IND A-/Stable |
| Commercial papers                            | Short-term | INR500      | IND A1              | IND A1                 | IND A1                 | IND A1                 | IND A1                 | IND A2+              | IND A2+                 | IND A2+                 | IND A2+                 | IND A2+                 | -             |
| Principal protected market-linked debentures | Long-Term  | INR50       | IND PP-MLD A/Stable | IND PP-MLD A-/Positive | IND PP-MLD A-/Positive | IND PP-MLD A-/Positive | IND PP-MLD A-/Positive | IND PP-MLD A-/Stable | IND PP-MLD A-emr/Stable | IND PP-MLD A-emr/Stable | IND PP-MLD A-emr/Stable | IND PP-MLD A-emr/Stable | -             |

## Complexity Level of the Instruments

| Instrument Type                              | Complexity Level |
|----------------------------------------------|------------------|
| Non-convertible debentures                   | Low              |
| Bank loans                                   | Low              |
| Commercial papers                            | Low              |
| Principal protected market-linked debentures | High             |

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

## Annexure

| Instrument Type            | ISIN         | Date of Issuance | Coupon Rate (%) | Maturity Date   | Size of Issue (million) | Rating/Outlook |
|----------------------------|--------------|------------------|-----------------|-----------------|-------------------------|----------------|
| Non-convertible debentures | INE501X07166 | 8 November 2019  | 12.5            | 8 November 2024 | INR0.04                 | IND A/Stable   |
| Non-convertible debentures | INE501X07125 | 26 June 2019     | 13              | 26 June 2025    | INR262.5                | IND A/Stable   |
| Non-convertible debentures | INE501X07257 | 21 December 2021 | 10.2            | 21 June 2025    | INR0.02                 | IND A/Stable   |
| Non-convertible debentures | INE501X08057 | 28 February 2022 | 11.35           | 15 March 2025   | INR750.0                | IND A/Stable   |
| Non-convertible debentures | INE501X07299 | 28 July 2022     | 11.16           | 28 July 2027    | INR310.0                | IND A/Stable   |

|                            |              |                   |                |                   |            |                   |
|----------------------------|--------------|-------------------|----------------|-------------------|------------|-------------------|
| Non-convertible debentures | INE501X07315 | 20 September 2022 | 11.2           | 20 September 2027 | INR260.0   | IND A/Stable      |
| Non-convertible debentures | INE501X07331 | 13 September 2022 | 11             | 8 March 2028      | INR654.5   | IND A/Stable      |
| Non-convertible debentures | INE501X07349 | 15 November 2022  | 11.2           | 15 November 2027  | INR310.0   | IND A/Stable      |
| Non-convertible debentures | INE501X07364 | 6 December 2022   | Variable other | 31 July 2025      | INR100.0   | IND A/Stable      |
| Non-convertible debentures | INE501X08073 | 13 December 2022  | 12.7           | 31 December 2024  | INR117.0   | IND A/Stable      |
| Non-convertible debentures | INE501X07398 | 15 February 2023  | 11.25          | 15 May 2025       | INR120.0   | IND A/Stable      |
| Non-convertible debentures | INE501X07380 | 8 February 2023   | 11.25          | 8 May 2025        | INR66.67   | IND A/Stable      |
| Non-convertible debentures | INE501X07406 | 24 March 2023     | 10.7           | 31 March 2025     | INR169.0   | IND A/Stable      |
| Non-convertible debentures | INE501X07422 | 11 April 2023     | 10.59          | 25 July 2024      | INR60.0    | IND A/Stable      |
| Non-convertible debentures | INE501X07414 | 5 December 2022   | 10             | 5 June 2024       | INR1,000.0 | WD (paid in full) |
| Non-convertible debentures | INE501X07430 | 18 May 2023       | 10.7           | 30 April 2025     | INR186.0   | IND A/Stable      |
| Non-convertible debentures | INE501X07448 | 26 July 2023      | 10.6           | 26 January 2025   | INR125.01  | IND A/Stable      |
| Non-convertible debentures | INE501X07455 | 2 August 2023     | 10.5           | 2 February 2025   | INR125.0   | IND A/Stable      |
| Non-convertible debentures | INE501X07463 | 8 August 2023     | 10.6           | 8 December 2024   | INR150.0   | IND A/Stable      |
| Non-convertible debentures | INE501X07471 | 25 August 2023    | 10.5           | 25 February 2025  | INR233.3   | IND A/Stable      |
| Non-convertible debentures | INE501X07489 | 4 September 2023  | 1 XIRR         | 4 March 2025      | INR400.0   | IND A/Stable      |
| Non-convertible debentures | INE501X07497 | 14 September 2023 | 9              | 14 March 2025     | INR200.0   | IND A/Stable      |
| Non-convertible debentures | INE501X07505 | 25 September 2023 | 10.75          | 31 August 2025    | INR375.0   | IND A/Stable      |

|                            |              |                   |       |                   |                    |              |
|----------------------------|--------------|-------------------|-------|-------------------|--------------------|--------------|
| Non-convertible debentures | INE501X07513 | 27 September 2023 | 11    | 27 September 2025 | INR156.25          | IND A/Stable |
| Non-convertible debentures | INE501X07521 | 29 September 2023 | 11.6  | 29 September 2029 | INR765.0           | IND A/Stable |
| Non-convertible debentures | INE501X07539 | 24 November 2023  | 11.15 | 15 September 2026 | INR500.0           | IND A/Stable |
| Non-convertible debentures | INE501X08081 | 24 January 2024   | 11.6  | 24 January 2026   | INR197.91          | IND A/Stable |
| Non-convertible debentures | INE501X07547 | 23 February 2024  | 9.5   | 23 August 2025    | INR500.0           | IND A/Stable |
| Non-convertible debentures | INE501X07554 | 6 March 2024      | 10.75 | 6 March 2026      | INR900.0           | IND A/Stable |
| Non-convertible debentures | INE501X07562 | 22 March 2024     | 9.5   | 7 October 2025    | INR500.0           | IND A/Stable |
| Non-convertible debentures | INE501X07570 | 30 April 2024     | 10.5  | 30 April 2027     | INR490.0           | IND A/Stable |
| Non-convertible debentures | IN8501X07017 | 30 April 2024     | 10.5  | 30 April 2027     | INR510.0           | IND A/Stable |
| Non-convertible debentures | INE501X07588 | 17 May 2024       | 10.5  | 17 November 2026  | INR250.0           | IND A/Stable |
| Non-convertible debentures | INE501X07596 | 31 May 2024       | 11.3  | 30 May 2029       | INR2,490.0         | IND A/Stable |
| Non-convertible debentures | INE501X07604 | 20 June 2024      | 10.25 | 20 March 2026     | INR1,250.0         | IND A/Stable |
| Utilised                   |              |                   |       |                   | INR13,483.2        |              |
| Unutilised                 |              |                   |       |                   | INR5,601.3         | IND A/Stable |
| <b>Total</b>               |              |                   |       |                   | <b>INR19,084.5</b> |              |
| Source: NSDL, Aye          |              |                   |       |                   |                    |              |

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## APPLICABLE CRITERIA AND POLICIES

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### Non-Bank Finance Companies Criteria

### Evaluating Corporate Governance

### The Rating Process

### Financial Institutions Rating Criteria

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