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India Ratings Affirms Aye Finance's Existing and Rates Additional NCDs and Bank Loans at 'IND A'/Stable; Withdraws Rating on PP-MLDs

Jul 08, 2025 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has taken the following actions on Aye Finance Limited's (Aye) and its debt instruments:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Issuer Rating	-	-	-	-	IND A/Stable	Affirmed
Long-term bank loan	-	-	-	INR10,000	IND A/Stable	Affirmed
Non-convertible debenture*	-	-	-	INR14,699.81 (reduced from INR19,084.5)	IND A/Stable	Affirmed
Commercial paper	-	-	up to 365 days	INR500	IND A1	Affirmed
Long-term bank loan	-	-	-	INR3,000	IND A/Stable	Assigned
Non-convertible debentures*	-	-	-	INR4,550	IND A/Stable	Assigned
Principal protected market-linked debentures#	-	-	-	INR50	WD	Withdrawn

* Details in Annexure
# Ind-Ra has withdrawn the rating as the issuer is no longer expected to proceed the instrument as previously envisaged.

Analytical Approach

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

Detailed Rationale of the Rating Action

The rating reflects Aye's improved capitalisation due to an equity raise in FY25, diversified funding profile with an increase in the share of bank funding in the overall funding mix, secured mix in the loan portfolio, seasoned loan book and improved profitability buffers. The ratings also factor in Aye's unsecured book and higher operating expense than its peers', and rising credit cost, particularly while managing hypothecation loans. The CP rating reflects Aye's improved profitability and capital along with adequate liquidity in FY25. The company has cash surplus in all-time buckets and Ind-Ra assumes that the company has reasonable liquidity to overcome a stress situation

List of Key Rating Drivers

Strengths
- Strengthening loan book through focused expansion of mortgage product
- 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
- Elevated credit costs due to hypothecation portfolio volatility

Detailed Description of Key Rating Drivers

Strengthening Loan Book through Focused Expansion of Mortgage Product: Aye uses the cluster-based credit underwriting approach to lend 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 and business expansion. These loans are covered by either immovable property or hypothecation of the working assets of borrower. In terms of industry segments, the portfolio was split among trading (50.7%), livestock rearing (29.1%), manufacturing (10.7%), services (7.6%), and job work (1.9%) at end-March 2025. Aye's product portfolio comprises hypothecation loans, mortgage loans and quasi-mortgage loans. Hypothecation loans formed 83.3% of the overall asset under management (AUM) at end-March 2025, followed by mortgage loans (14.7%) and quasi-mortgage loans (2%). Aye classified 57.3% of the overall portfolio as secured, considering mortgage and hypothecation of underlying inventory and receivables, while the remaining as unsecured at FYE25 (FY24: 59.9%). Based on the classification, Aye's unsecured portfolio increased to 42.7% at FY25 (FY24: 40.1%; FY23: 31.3%). Unsecured loans are hypothecated loans with loan to value exceeding 100%, where the value of sanction is higher than inventory valuation at the point of disbursement. Aye has conservatively classified the entire loan as unsecured. The share of mortgage loans in the overall portfolio nearly doubled in FY25 over FY24.

The company's AUM stood at INR55.25 billion at end-March 2025 (FY24: INR44.7 billion; FY23: INR27.21 billion; FY22: INR17.3 billion). The largest part (82.7%) of the portfolio had a ticket size of less than INR0.3 million in March 2025, with an average ticket size of about INR0.1 million. Geographically, the portfolio is well diversified, with the top three states – Bihar (15%), Uttar Pradesh (14.7%) and Rajasthan (11.7%) - accounting for 41.4% of the combined exposure, with the remaining spread across 18 states. The company had a network of 527 branches at FYE25.

Improved Capitalisation Provides Headroom for Further Scaling of Franchise: With the company raising capital worth INR2.5 billion during FY25 (FY24: INR3.1 billion), the tangible net worth (net of deferred tax assets and intangible assets) improved to INR15.91 billion (FY24: INR11.88 billion, FY23: INR7.38 billion; FY22: INR6.57 billion).

The company's improved capital levels provide it with headroom for loan growth and scaling of franchise. Furthermore, it has filed Draft Red Herring Prospectus in December 2024 to raise around INR14,500 million through an initial public offering. Out of this, INR8,850 million will come from fresh equity shares to support business growth and strengthen capital during FY26. Moreover, the company's capitalisation levels are adequate to meet its medium-term growth objectives, while maintaining the leverage (debt/equity) below 4.0x (FY25: 2.8x; FY24: 2.9x; FY23: 3.1x). 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 (16.20% holding on non-diluted basis on 25 March 2025), LGT Capital (14.14%), Capital G LP (10.27%), Alpha Wave India (formerly Falcon Edge; 11.22%), British International Investments Plc (9.52%), A91 (9.24%) and MAJ Invest (5.97%) and rest others. The founder group holds 7.33% (including Sanjay Sharma held a 2.89%) stake in the company.

The investors maintain adequate oversight through board representation, with one investor being on the board and three others having had historical representation. Investors have supported Aye's technological initiatives and continue to provide 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 under management ratio moderated to 10.47% in FY25 (FY24: 10.73%; FY23: 13.51%; FY22: 14.02%). The company's return on assets declined to 3.1% in FY25 (FY24: 4.1%, FY23: 2%; FY22: negative 2.1%) due to higher credit cost; however, the profitability was managed by healthy internal accruals from business growth. 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 the FY25 levels.

Improving Funding Diversification: Aye has increased its share of bank term loan funding in the overall funding mix to 26.8% in FY25 (FY24: 19.9%, FY23: 4%) in the overall funding mix (ex- direct assignment). Aye's funding skewedness towards capital market instruments is stable, with non-convertible debentures (NCDs) forming 31.3% of the total debt ex- direct assignment at FYE25 (FYE24: 31.7%; FYE23: 31.9%), followed by securitisation 20.5% (23%; 24.8%), term loans from financial institutions 14.3% (17.7%; 19.2% and external commercial borrowings 7.2% (7.5%; 11.4%). Over the years, Aye has established relations with a diversified set of lenders/investors, and its external borrowings are funded through about 62 lenders/investors at end-March 2025. The bank's share (including investment in pass-through certificates) in the overall borrowing mix excluding direct assignment stood at 30.1% at FYE25 (FYE24: 31.4%; FYE23: 18.8%).

Established IT Systems and Processes: Aye operates 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.

Elevated Credit Costs due to Hypothecation Portfolio Volatility:. Hypothecation loan contributes majority to the portfolio mix at 83.3% in FY25 (FY24: 89.8%; FY23: 93.9%). In the livestock book, asset quality pressure has been observed; however, the company has reduced its share in the overall portfolio mix. As discussed with the management, the company has taken several steps to improve asset quality and collection efficiency, by strengthening its on-ground collections team and incorporating changes in the policy for underwriting and credit assessment. In parallel, there is a strategic focus on increasing the share of mortgage loans in the portfolio.

Aye's pre-provisioning operating profit-to-credit cost ratio declined to 1.78x in FY25 (FY24: 2.7x, FY23: 1.97x). Its asset quality on the total book declined with 0+days past due (dpd) standing at 7.1% at FYE25 (FYE24: 4.7%; FYE23: 4.8%). Furthermore, the overall average collection efficiency declined to around 95% in FY25 (FY24: around 98%), due to delay and recovery issues in hypothecation loans, however supported by a strengthened in-house collection team. The company's gross non-performing assets (NPA) increased to 4.21% in FY25 (FY24: 3.19%; FY23: 2.49%) and net NPA stood at 1.4% (0.93%; 1.28%). However, along with healthy growth in its AUM, the company has managed to keep the delinquencies under check along with maintaining adequate provision coverage of 66.7% in FY25 (FY24: 72.1%; FY23: 49.8%). At end-March 2025, the company's negligible restructured assets accounted for about 0.09% of its AUM. While Ind-Ra believes Aye's credit profile is supported by its granular book, the asset quality remains a 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-March 2025, the company had unencumbered cash and cash equivalents, and liquid investments of around INR9.9 billion, along with an unutilised limit of INR5.6 billion. The agency believes this will be sufficient to meet the debt obligations of INR5.1 billion over the next three months from April to June 2025, assuming nil collections and disbursements. According to the asset-liability management statement at end-March 2025, 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 20.7% 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, could 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 the asset quality or otherwise,
- weakened operating performance,
- significant deterioration in the asset quality with a sustained rise in net NPA above 3%, and
- deterioration in liquidity buffers (minimum three months' buffers to be maintained).

Any Other Information

Not applicable

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 527 branches across 21 states and employee count of 9,245 at FYE25.

Key Financial Indicators

Particulars	FY25	FY24
Total tangible assets (INR billion)	62.7	48.3

Total tangible equity (INR billion)	15.9	11.9
Net profit/loss (INR billion)	1.7	1.6
Equity/assets (%)	25.4	24.6
Gross NPAs (%)	4.21	3.19
Leverage (x)	2.8	2.9
Tier 1 ratio (%)	34.92	32.79
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	19 July 2024	22 May 2024	12 April 2024	20 February2024	9 January 2024	17 March 2023	16 January 2023	16 November 2022	26 August 2022
Issuer rating	Long-term	-	IND A/ Stable	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
Non-convertible debentures	Long-term	INR19,249.81	IND A/Stable	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
Long-term bank loans	Long-term	INR13,000	IND A/Stable	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
Commercial papers	Short-term	INR500	IND A1	IND A1	IND A1	IND A1	IND A1	IND A1	IND A2+	IND A2+	IND A2+	IND A2+
Principal protected market-linked debentures	Long-Term	INR50	WD	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

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Commercial paper	Low
Long-term bank loan	Low
Non-convertible debentures	Low

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	WD (paid in full)
Non-convertible debentures	INE501X07125	26 June 2019	13	26 June 2025	INR262.5	WD (paid in full)
Non-convertible debentures	INE501X07257	21 December 2021	10.2	21 June 2025	INR0.02	WD (paid in full)
Non-convertible debentures	INE501X08057	28 February 2022	11.35	15 March 2025	INR750.0	WD (paid in full)
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	WD (paid in full)

Non-convertible debentures	INE501X07398	15 February 2023	11.25	15 May 2025	INR120.0	WD (paid in full)
Non-convertible debentures	INE501X07380	8 February 2023	11.25	8 May 2025	INR66.67	WD (paid in full)
Non-convertible debentures	INE501X07406	24 March 2023	10.7	31 March 2025	INR169.0	WD (paid in full)
Non-convertible debentures	INE501X07422	11 April 2023	10.59	25 July 2024	INR60.0	WD (paid in full)
Non-convertible debentures	INE501X07430	18 May 2023	10.7	30 April 2025	INR186.0	WD (paid in full)
Non-convertible debentures	INE501X07448	26 July 2023	10.6	26 January 2025	INR125.01	WD (paid in full)
Non-convertible debentures	INE501X07455	2 August 2023	10.5	2 February 2025	INR125.0	WD (paid in full)
Non-convertible debentures	INE501X07463	8 August 2023	10.6	8 December 2024	INR150.0	WD (paid in full)
Non-convertible debentures	INE501X07471	25 August 2023	10.5	25 February 2025	INR233.3	WD (paid in full)
Non-convertible debentures	INE501X07489	4 September 2023	1	4 March 2025	INR400.0	WD (paid in full)
Non-convertible debentures	INE501X07497	14 September 2023	9	14 March 2025	INR200.0	WD (paid in full)
Non-convertible debentures	INE501X07505	25 September 2023	10.75	31 August 2025	INR125.0	IND A/Stable
Non-convertible debentures	INE501X07513	27 September 2023	11	27 September 2025	INR31.25	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	INR72.90	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	INR450.0	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	INR1000.0	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
Non-convertible debentures	INE501X07612	25 July 2024	10.6	25 January 2026	INR500	IND A/Stable
Non-convertible debentures	INE501X07620	28 August 2024	10.5	28 August 2026	INR468.75	IND A/Stable
Non-convertible debentures	INE501X07638	9 October 2024	10.5	9 October 2027	INR750	IND A/Stable
Non-convertible debentures	INE501X07646	31 December 2024	10.1	31 March 2027	INR661.11	IND A/Stable
Non-convertible debentures	INE501X07653	31 December 2024	9.95	31 December 2026	INR250	IND A/Stable
Non-convertible debentures	INE501X07661	20 March 2025	9.95	20 March 2027	INR800	IND A/Stable
Non-convertible debentures	INE501X07679	20 March 2025	10.35	20 December 2027	INR400	IND A/Stable
Non-convertible debentures	INE501X07687	20 June 2025	11	17 April 2029	INR 200	IND A/Stable
Non-convertible debentures	INE501X07703	30 June 2025	10.25	30 June 2027	INR500	IND A/Stable
Non-convertible debentures	INE501X07695	30 June 2025	10.40	30 March 2028	INR250	IND A/Stable
Utilised					INR14,348.51	
Unutilised					INR4,901.3	
Total					**INR19,249.81**	

Source: NSDL, Aye

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Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria