AYE [आय]

AYE FINANCE PRIVATE LIMITED
CIN: U65921DL1993PTC283660

July 19, 2024

To,
The General Manager
Department of Corporate Services
BSE Limited,
P.J. Towers, Dalal Street,
Mumbai – 400001, Maharashtra

Sub: Intimation of Credit Rating upgraded to IND A/ Stable

Dear Sir/Ma'am,

Pursuant to Regulations 51 & 55 read with Part B of Schedule III of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, as amended, we wish to inform that India Ratings and Research (Ind-Ra) vide its letter dated July 19, 2024 has upgraded the rating for various instruments of the Company as detailed below:

Sr. No.	Instrument Type	Size of Issue (million)	Previous Rating	Revised Rating	Rating Action
1.	Non-Convertible Debentures	INR 6,000	-	IND A/ Stable	Assigned
2.	Non-Convertible Debentures	INR 13,084.5 (reduced from INR 14,291.6)	IND A-/Positive	IND A/ Stable	Upgraded
3.	Commercial Papers	INR 500	IND A1	IND A1	Affirmed
4.	Principal Protected market-linked debentures	INR 50	IND PP-MLD A-/ Positive	IND PP-MLD A/Stable	Upgraded
5.	Long-term bank loans	INR 3,000	-	IND A/Stable	Assigned
6.	Long-term bank loans	INR 7,000	IND A-/Positive	IND A/Stable	Upgraded

Copy of the aforesaid letter received from India Ratings and Research is enclosed herewith.

This is for your information, record and appropriate dissemination.

Thanking you.

Yours faithfully,
For Aye Finance Private Limited

VIPUL SHARMA
Digitally signed by VIPUL SHARMA
Date: 2024.07.19 20:13:23 +05'30'

(Vipul Sharma)
Company Secretary, Compliance Officer & CCO
M. No.-A27737

Encl. a/a

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 Financials 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 February2024	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	-

Bank wise Facilities Details

Click here to see the details

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
Total					**INR19,084.5**	

Source: NSDL, Aye

APPLICABLE CRITERIA

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

Solicitation Disclosures

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