

## Aye Finance Limited's rating reaffirmed at 'CareEdge B+'; outlook revised to 'Stable'

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**USD 40 million external commercial borrowing** **CareEdge B+ / Stable (outlook revised from positive)**

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CareEdge Global has reaffirmed the long-term foreign currency rating of Aye Finance Limited (AFL) at '**CareEdge B+**'. Its rating outlook has been revised to 'Stable' from 'Positive'.

### Rationale

The outlook revision is primarily an outcome of a challenging industry environment that has resulted in higher stress in micro small and medium enterprises (MSMEs) lending space across geographies and product categories as reflected in the asset quality and credit costs across players. This also resulted in moderation of asset quality and profitability metrics for AFL, contrary to our earlier expectations of improvement while assigning a positive outlook. Gross non-performing assets (GNPA) increased to 4.8% as of March 31, 2026, from 4.2% as of March 31, 2025, reflecting the underlying stress percolating in the company's borrower segments. Further, loan covenants linked to asset quality on certain facilities remained in breach as of March 31, 2025, and March 31, 2026, although both the quantum of such exposures and instances reduced progressively during the year. Additionally, operating expense ratio increased to 9.1% of average managed assets in FY26 from 8.7% in FY25, driven by branch expansion, strengthening of the collections infrastructure and scaling up of loans against property (LAP) business.

The rating reaffirmation is supported by the company's comfortable capitalisation, which strengthened following its initial public offering (IPO) in February 2026, along with an improving funding profile, experienced management, and the presence of reputed investors. The company raised Rs 7.1 bn through primary equity issuance under the IPO, augmenting its net worth and providing adequate headroom to support medium-term business growth. As a result, the capital adequacy ratio (CAR) rose to 42.2% as of March 31, 2026, well above the regulatory requirement of 15%, with managed gearing of 2.3x (including securitization portfolio) vs 3.1x as of March 31, 2025.

Additionally, the gradual shift in the portfolio mix towards secured lending in the form of LAP will support asset quality improvement over the medium term. As of March 31, 2026, the company's AUM amounted to about Rs 70 billion, comprising ~77% hypothecation-based lending, with LAP accounting for ~22%, up from 8% in FY24. The management intends to scale this to 30-35% over the near-to-medium term, which will reduce loss severity and volatility in credit costs.

## Outlook

The Stable outlook reflects CareEdge Global's expectation that the company will continue scaling up operations while gradually improving its asset quality and earnings metrics over the medium term, backed by adequate liquidity and resource profile to support growth.

## Rating sensitivities

### Upward factors

- A significantly larger loan book with diversification towards secured asset class or a less vulnerable borrower profile, resulting in a sustained improvement in asset quality such that the credit cost is maintained around 3.5%; and
- Reduction in operating expenses and credit costs, leading to sustained improvement in return on managed assets (RoMA) around 4%

### Downward factors

- Significant deterioration in asset quality resulting in higher GNPA or credit costs sustaining above 5%
- Increase in gearing level above 4-4.5x on a sustained basis

## Analytical approach

CareEdge Global has assessed AFL's business and financial risk profile on a standalone basis.

## Key rating drivers

### Strengths

#### **Comfortable capitalisation profile; further strengthened post equity infusion**

AFL's capitalisation profile is well-supported by recent capital raises and strong balance-sheet metrics, including a net worth of Rs 25.3 billion, a high CAR of 42.2%, and low managed gearing of 2.3 times as on March 31, 2026. Equity infusion through the IPO in February 2026, comprising a primary issuance of Rs 7.1 billion, materially strengthened the capital base, leading to an improvement in managed gearing from 3.1 times as on March 31, 2025. While gearing is expected to trend upward in line with growth funded through borrowings, AFL is not expected to seek additional external capital in the medium term, supported by capital buffers and internal accruals. Even with a portfolio compound annual growth rate (CAGR) of 25–30% over the next three years, managed gearing is expected to remain below 4 times.

#### **Experienced management and presence of reputed investors**

The company benefits from a seasoned senior leadership team with long-standing experience in banking and financial services. Most members of the leadership team have been associated with the company over an extended period, providing continuity and institutional knowledge. An experienced management has enabled AFL to put in place robust underwriting, risk management, and operational processes, along with a scalable distribution network, facilitating business growth in relatively underserved borrower segments and geographies.

The management team is supported by an experienced and well-structured Board of Directors, which provides effective oversight and strategic guidance. The Board comprises the Managing

Director, Mr. Sanjay Sharma, five independent directors, and one investor-nominated director. Since September 2023, the Board has been chaired by Dr. Govinda Rajulu Chintala, former Chairman of NABARD, who brings extensive experience in rural and development finance.

In addition, the company is backed by reputed domestic and global investors such as ABC Impact (Temasek), British International Investment, A91 Partners, Capital G (Google), Elevation Capital (SAIF Partners), and Alpha Wave, among others. ABC Impact has also nominated a director, Mr. Aditya Misra, to the Board.

### **Diversified resource profile**

The company benefits from a well-diversified funding profile, supported by more than 60 lenders and investors. As of end-FY26, borrowings were primarily sourced from non-banking financial companies (NBFCs), which accounted for around 37% (including securitisation pools such as pass-through certificates and direct assignments), followed by banks (34%, including securitisation pools), development financial institutions (~17%), and retail/HNI investors (~12%). From an instrument perspective, term loans constituted nearly 38% of total borrowings, followed by securitisation at around 29%, non-convertible debentures (NCDs) at approximately 20%, and external commercial borrowings (ECBs) at about 13%. Further, the priority-sector nature of the underlying loan portfolio supports securitisation avenues, thereby aiding effective management of refinancing needs and strengthening liquidity flexibility. In FY26, the company mobilised incremental funding of around Rs 33 billion (excluding direct assignments) at competitive rates, with the marginal cost of funds moderating on a sequential basis over recent quarters. The incremental cost of borrowings improved to 10.1% in Q4FY26 from 10.3% in Q3FY26 and 10.8% in Q2FY26.

Going forward, the company's ability to sustain funding access at competitive rates, maintain diversification across lenders and instruments, and deepen relationships with high-quality institutional lenders are key monitorable from a credit perspective.

### **Weaknesses**

#### **Modest asset quality reflects a vulnerable borrower segment**

AFL primarily caters to micro-entrepreneurs operating in informal and cash-flow-sensitive segments, which inherently exposes its portfolio to elevated credit risk, particularly during periods of macroeconomic stress. Asset quality weakened further last fiscal, with GNPA increasing to 4.8% as of March 31, 2026, from 4.2% as of March 31, 2025, and 3.2% as of March 31, 2024. During FY26, GNPA peaked at 4.94% as of December 31, 2025, before moderating by 17 bps to 4.77% as of March 31, 2026. Delinquencies over the past two years have been observed across segments, with the livestock portfolio exhibiting relatively higher stress. In response, the company has consciously reduced exposure to this segment, which declined to about 25% of AUM in FY26 from 33% in FY24. Further, the share of LAP increased to 22% of AUM in FY26 from 8% in FY24, with a corresponding reduction in hypothecation-based lending, reflecting a gradual shift towards better-secured exposures.

Additionally, the moderation in Stage 2 assets (primarily 31-90 days past due loans) to 1.0% in FY26 from 1.8% in FY25 provides comfort regarding limited potential for incremental slippages from the current portfolio.

While the company has implemented corrective measures, including tightened underwriting standards, customer selection criteria, and strengthening of collection and recovery processes, asset quality remains vulnerable to external risks such as macroeconomic volatility and potential borrower income disruptions. These risks are accentuated by ongoing geopolitical developments in West Asia and expectations of a below-average monsoon. Further, limited seasoning in newer loan cohorts, particularly relatively longer-tenor LAP, constrains full visibility on portfolio performance through different credit cycles.

### **Moderate profitability due to elevated credit costs and operating expenses<sup>1</sup>**

The company reported profit after tax (PAT) of Rs 1.9 billion in FY26, up from Rs 1.7 billion in FY25. However, return indicators remained modest, with RoMA declining to 2.6% in FY26 from 2.9% in FY25 and 3.8% in FY24. The earnings profile continues to be constrained by elevated credit costs and high operating expenditure.

Credit costs remained high at 4.5% in FY26 (FY25: 4.9%) due to continued asset quality stress and related write-offs, although a sequential improvement was observed over the quarters during the year. Operating expenses increased to 9.1% of average assets in FY26 from 8.7% in FY25, driven by branch expansion. Incremental investments towards scaling up the LAP business and collection team, a sharp increase in employee strength (up ~30%), and technology upgrades capped the improvement in operating efficiency. Net interest margin declined to 13.9% in FY26 from 14.9% in FY25, reflecting the increasing proportion of relatively lower-yielding LAP in the overall portfolio.

Going forward, margins are expected to remain broadly stable, while operating expense ratios are likely to improve as benefits from economies of scale accrue. This is expected to boost overall profitability, subject to the company's ability to maintain effective control over incremental slippages.

### **Liquidity**

AFL's liquidity is adequate, with no negative cumulative mismatches as per the asset-liability mismatch statement as of March 31, 2026. The company had liquidity of around Rs 8.2 billion in cash and equivalents, and liquid investments (not lien marked) as on same date. This is adequate to meet the upcoming debt maturities for the next 6 months.

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<sup>1</sup> All profitability ratios are computed based on average total assets (including securitisation pool)

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### **Environmental, social and governance (ESG) considerations**

AFL's ESG considerations are integrated into its operations and social outreach. The company has implemented an ESG Policy to ensure its financial services do not negatively impact the environment and the communities they serve. Socially, it focuses on financial inclusion, especially for women, with majority of loans having women as co-applicants. The company supports over 6.4 lakh customer enterprises and contributes to livelihoods through business advisory and bookkeeping support initiatives.

On the governance front, the company's Board functioning is effective; five of the seven directors, including the Chairperson, are independent. Furthermore, the company upholds strong ethical practices with a Whistleblower Policy and a Workplace Harassment Prevention Policy, promoting transparency, accountability, and employee safety.

### **About the company**

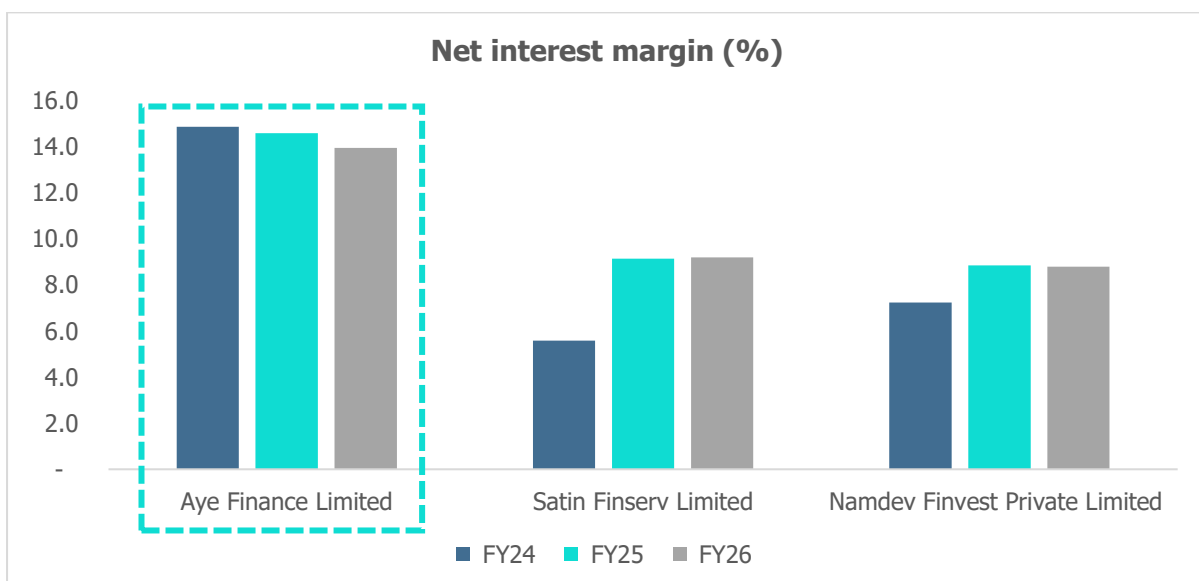
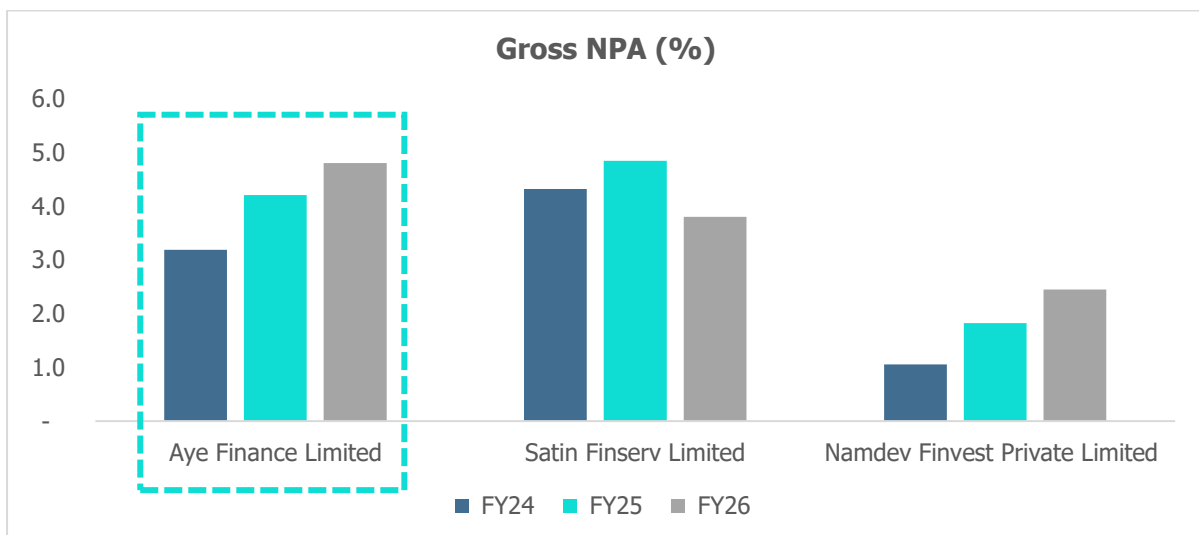
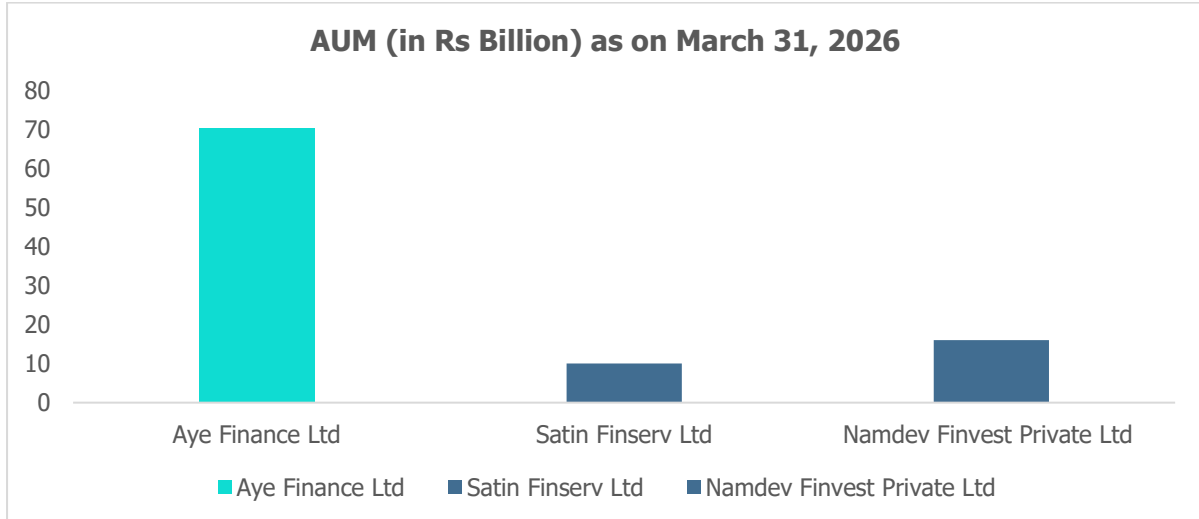
Incorporated in 2014 and headquartered in Gurugram, India, AFL is an NBFC promoted by Mr. Sanjay Sharma, who brings extensive experience in retail lending and financial services.

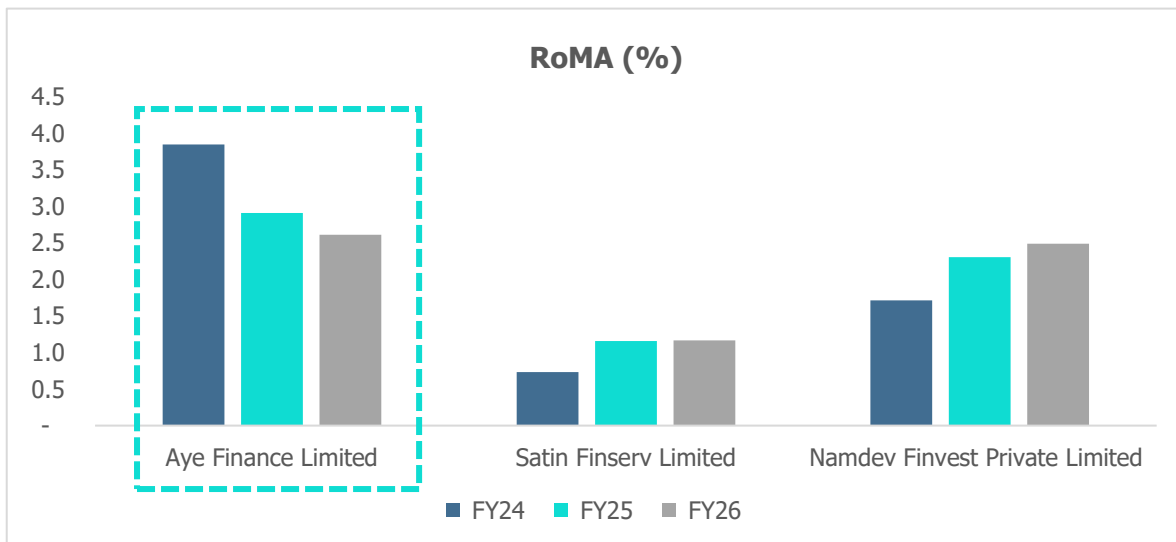
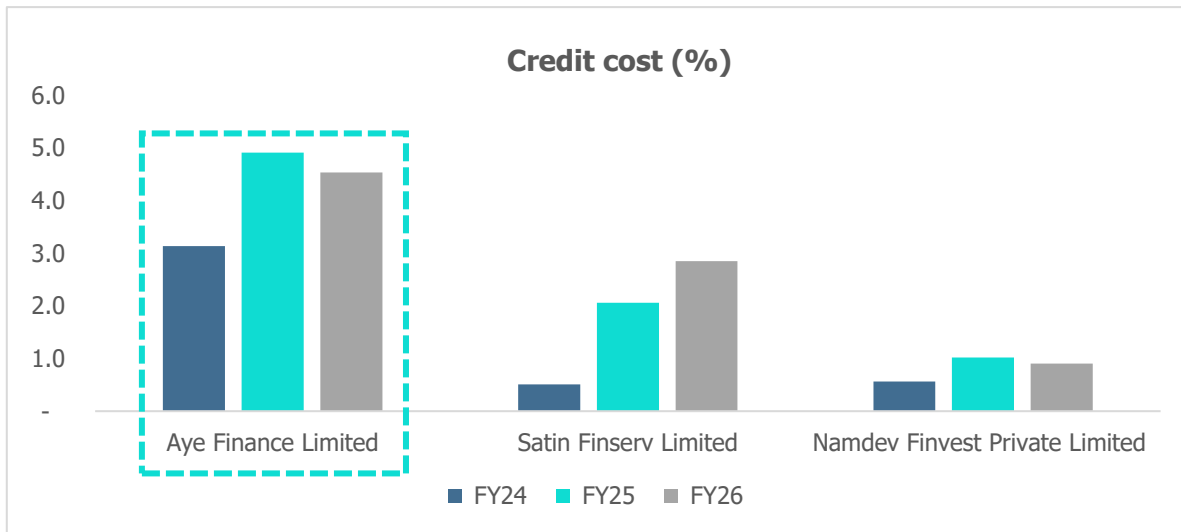
The company focuses on providing small-ticket loans to micro and small enterprises, primarily catering to under-served borrower segments in Tier 2 and 3 cities of India. AFL's lending model is oriented towards addressing the working capital and business expansion needs of micro-entrepreneurs engaged in trading, livestock rearing, manufacturing, job work, and service businesses, with an average loan size of approximately Rs 0.18 million.

As of March 31, 2026, the company managed AUM of approximately Rs 70 billion, serving about 6.4 lakh borrowers through a wide distribution network of 571 branches across 21 states and union territories. The loan portfolio is predominantly secured by hypothecation-based lending, which accounted for around 77% of the AUM, while LAP constituted approximately 22% and quasi-LAP 1%. Though present across India, the top five states—Bihar, Uttar Pradesh, Rajasthan, Madhya Pradesh, and Maharashtra—account for about 58% of AUM.

The company is supported by a strong shareholder base comprising reputed global and domestic institutional investors such as ABC Impact (Temasek), British International Investment, A91 Partners, Capital G (Google), Elevation Capital (SAIF Partners), and Alpha Wave, among others. AFL was listed on the National Stock Exchange of India and the Bombay Stock Exchange following a successful IPO in February 2026

**Comparison with other NBFCs**





**Recent updates and financial summary**

The company reported PAT of Rs 1.9 billion in FY26, up from Rs 1.7 billion in FY25. The company reported RoMA (annualised) of 4.6% during Q4FY26. Overall, AUM grew by approximately 27% year-on-year to Rs 70.4 billion as of March 31, 2026, compared to Rs 55.3 billion as of March 31, 2025. Asset quality moderated, with GNPA and NNPA rising from 4.2% and 1.4%, respectively, in FY25 to 4.8% and 1.8% in FY26. In February 2026, the company raised Rs 7.1 billion of equity capital through an IPO, significantly strengthening its capital base and improving managed gearing from 3.1x as of March 31, 2025, to 2.3x as of March 31, 2026.

## Key financial metrics

Particulars	Unit	March 31, 2024	March 31, 2025	March 31, 2026
<b>AUM</b>	Rs Billion	44.7	55.3	70.4
<b>Net interest margin</b>	%	14.8	14.5	13.9
<b>Cost to income</b>	%	50.8	49.9	51.1
<b>GNPA<sup>2</sup></b>	%	3.2	4.2	4.8
<b>RoMA</b>	%	3.8	2.9	2.6
<b>CAR<sup>2</sup></b>	%	32.8	34.9	42.2

## Solicitation status

The rating is solicited. The management has provided information to and held meetings with the CareEdge Global analytical team for the rating.

## Details of the instrument

Instrument	ISIN	Date of issuance	Coupon rate (%)	Maturity date	Issue size	Rating
External Commercial Borrowing	INIFD0705027	28 May, 2025	325 bps + 6-month SOFR	30 May, 2028	USD 15 million	CareEdge B+/Stable
External Commercial Borrowing	INIFD0705035	02 Sep, 2025	325 bps + 6-month SOFR	05 Sep, 2028	USD 15 million	CareEdge B+/Stable
External Commercial Borrowing (proposed)	-	-	-	-	USD 10 million	CareEdge B+/Stable

## Rating history

Instrument	Type	Rating	Date
<b>External Commercial Borrowing</b>	Long-Term Foreign Currency	CareEdge B+/Stable	May 29, 2026
<b>External Commercial Borrowing</b>	Long-Term Foreign Currency	CareEdge B+/Positive	May 30, 2025

<sup>2</sup> As per reported financials

**Criteria applied**

[CareEdge Global's Financial Institutions Rating Methodology](#)

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