

CareEdge Global assigns a Long-Term Foreign Currency Rating of 'CareEdge B+ / Positive' to the proposed External Commercial Borrowing plan of Aye Finance Limited

USD30 million External Commercial Borrowing	CareEdge B+ / Positive
USD10 million External Commercial Borrowing (proposed)	CareEdge B+ / Positive

CareEdge Global has assigned a '**CareEdge B+ / Positive**' rating to Aye Finance Limited's (Aye Finance) USD40 million external commercial borrowing plans.

Rating Rationale

The rating is primarily driven by Aye Finance's moderate scale of operations in untapped markets focusing on underserved borrowers, comfortable capitalisation and diversified resource profile along with experienced management and presence of marquee investors. These strengths are mitigated by modest asset quality due to exposure to inherently weak asset classes, and target markets being susceptible to macroeconomic shocks.

Key Rating Drivers

Strengths

Moderate scale of operations in untapped markets, focusing on underserved borrowers

Since its inception, Aye Finance has focused on providing loans to micro-scale enterprises for their working capital and business expansion needs. The company offers small ticket loans with average ticket size loans of Rs 1.5 lakhs in the financially underdeveloped regions such as Uttar Pradesh, Bihar, Jharkhand, Rajasthan and Madhya Pradesh. Trading and livestock rearing are the company's main segments, forming nearly 80% of its total Asset Under Management (AUM) as of March 31, 2025.

The company has grown with a compounded annual growth rate of ~37% in the past five years through fiscal 2025. Growing by 23.5% in fiscal 2025, Aye Finance's AUM stood at Rs 5,525 crore as of March 31, 2025. States of Bihar, Uttar Pradesh, Rajasthan, Madhya Pradesh and Jharkhand constituted around 15%, 14%, 11%, 8% and 7% of its AUM, respectively. The company has been focusing on mortgage loans in the last few years and has increased its contribution to ~15% of overall AUM for fiscal 2025, compared to ~7% in the previous year.

Comfortable Capitalisation and Diversified Resource Profile

Aye Finance maintains a comfortable capitalisation profile, with a capital adequacy ratio of around 35% as of March 31, 2025. This has been aided by over Rs 770 crore of capital infusion at regular intervals since fiscal 2020. The company's gearing¹ improved to 2.83x as of March 31, 2025, from 2.94x as of March 31, 2024, with a gradual increase in net worth.

The company has a diverse resource profile with banks and non-banking financial institutions (NBFIs) contributing ~70% of its overall borrowings. Its financial flexibility would improve further once the company gets listed on the Indian stock exchanges. The Securities and Exchange Board of India, the market regulator, has approved the company's draft red herring prospectus for an initial public offering (IPO).

In line with its planned strategy, Aye Finance would grow its mortgage loan business, gradually shifting from a largely unsecured loan book to a diversified portfolio. CareEdge Global expects the company to maintain a comfortable capitalisation level with a gearing level of under 4x.

Experienced Management Team and Marquee Investors

The company's senior leadership team has long-standing experience in banking and financial services, and most of them have been associated with the company for a long time. An experienced team has enabled Aye Finance to establish robust processes and a distribution network, enabling the scale-up of the business in relatively underserved markets/categories.

The management team is supported by an experienced board. The Board of Directors includes the company's Managing Director (Mr. Sanjay Sharma), five independent directors, and one investor-nominated director. Dr. Govinda Rajulu Chintala, Chairperson of the Board since September 2023, brings vast experience in rural finance, having led NABARD.

Marquee investors such as Capital G (Google), Falcon Edge, SAIF Partners (Elevation Capital), A91 Partners, LGT Impact, Maj Invest, British International Investments, ABC Impact, etc., are associated with the company. Moreover, ABC Impact has nominated one director (Mr. Aditya Misra) to the company's board. Company's MD, Mr Sanjay Sharma, has around 8% of the company's shareholding, and no single investor has over 20% shareholding on a fully diluted basis.

¹ Net worth has been adjusted for deferred tax assets (net) and intangible assets for computation of gearing

Weaknesses

Modest Asset Quality Metrics

Aye Finance's asset quality remains modest due to its customer segments and loan types, particularly hypothecation loans. These loans exhibit the highest delinquency rates across all geographies in all the buckets (30+, 60+, 90+ DPDs). While the asset quality had improved from fiscal 2021 to fiscal 2024, it deteriorated in fiscal 2025, with gross non-performing assets (GNPA) rising to Rs 217 crore due to significant write-offs in hypothecation loans. Write-offs were due to macroeconomic factors such as borrower overleveraging, witnessed across NBFIs in fiscal 2025. While historically GNPA and net non-performing assets (NNPA) levels have remained above 3.0% and 1.5%, respectively, they deteriorated to 4.2% and 1.4% in fiscal 2025.

Mortgage loans remain the most stable within the product segment, while quasi-mortgage loans have gradually recovered. The company's return on total assets (RoTA) stood at 3.0% in fiscal 2025, largely due to its higher operating (~9%) and credit costs (~5%). While these costs are higher given the type of business, these are expected to decline over the medium term with economies of scale and quality underwriting.

Portfolio Vulnerable to Macroeconomic Shocks

The segment to which Aye Finance caters is highly vulnerable to macroeconomic shocks, given the low per-capita income and embedded key person risk, as the entire household's earnings depend on one or two working members. Portfolio quality was also impacted during past macro shocks, such as demonetisation and the COVID-19 pandemic.

Further, the seasoning of an asset profile refers to the number of repayment cycles of an asset class. While the seasoning profile is adequate for hypothecation loans, considering fiscal 2014 as the inception year and average tenure. Repayment cycles for mortgage and quasi-mortgage loans have completed one cycle each. Thus, overall, the company's seasoning profile appears weak. Hence, CareEdge Global has also evaluated GNPA's calculations on a lagged basis. Aye Finance's one-year lagged GNPA stood at 4.9% as of March 31, 2025. CareEdge Global expects asset quality issues to continue in the near term, particularly with Aye Finance's borrower segment and asset class.

Liquidity

Aye Finance's liquidity position is adequate, with no negative cumulative mismatches as per the asset-liability mismatch statement as of March 31, 2025. The company had liquidity of around Rs 1,030 crore in cash and cash equivalents, and liquid investments (not lien mark) as of March 31, 2025. This is adequate to meet the upcoming debt maturities for the next 12 months.

Outlook: Positive

The positive outlook reflects CareEdge Global's expectation that Aye Finance's credit profile may improve over the near to medium term. The company could scale up its portfolio while maintaining the capitalisation with a timely fund raise through an IPO in fiscal 2026. Furthermore, the elevated credit costs will likely normalise in the next 2-3 quarters.

Rating Sensitivities

Upward factors

- Timely fundraising through IPO to bolster capitalisation and financial flexibility
- Significant improvement in AUM and product diversification
- Improvement in cost structure, primarily related to opex and credit costs

Downward factors

- Significant deterioration in asset quality resulting in higher GNPA (including write-offs) or credit cost sustaining above 5%
- Increase in gearing level above 4-4.5x on a sustained basis

Environmental, Social and Governance (ESG) considerations

The Environmental, Social, and Governance (ESG) considerations of Aye Finance are integrated into its operations and social outreach. The company has implemented an ESG Policy, ensuring that its financial services do not negatively impact the environment and the communities they serve. Socially, it focuses on financial inclusion, especially for women, with over 90% of loans having women as co-applicants. The company supports over 5.28 lakh customer enterprises, impacting 1.7 million lives through business advisory and bookkeeping support initiatives.

On the governance front, the company's board functioning is effective, with five out of seven directors, including the Chairperson, being 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

Aye Finance Limited is a non-banking financial institution, founded by Mr. Sanjay Sharma and Mr. Vikram Jetley, who have experience in retail lending, and commenced operations in 2014. The company provides small ticket size loans (<Rs 4 lakhs) to underpenetrated micro and small businesses such as trading, livestock rearing, manufacturing, job work and services. Aye is backed by private equity investors – Capital G (Google), Falcon Edge, SAIF Partners (Elevation Capital), A91 Partners, LGT Impact, Maj Invest, British International Investments, ABC Impact and others. As of March 31, 2025, the company operated in 21 states/Union Territories through 526 branches, managing a portfolio of Rs 5,525 crore (US\$ 643 million).

It offers loans either through hypothecation of assets (83% of AUM) or mortgage properties (mortgage loan and quasi-mortgage loan), constituting 15% and 2% of AUM, respectively.

Solicitation Status

These ratings are solicited. The management has provided information and meetings to the CareEdge Global analytical team for the rating.

Rating History

Instrument	Type	Rating	Date
External commercial borrowings	Long Term Foreign Currency (Solicited)	CareEdge B+/Positive	May 30, 2025
External commercial borrowings (proposed)	Long Term Foreign Currency (Solicited)	CareEdge B+/Positive	May 30, 2025

Criteria Applied

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

Analytical Contacts

Ankit Kedia

ankit.kedia@careedgeglobal.com

Abhilash Dash

abhilash.dash@careedgeglobal.com

Smit Doshi

smit.doshi@careedgeglobal.com

Media Contact

Mradul Mishra

mradul.mishra@careedge.in

About Us

CareEdge Global IFSC Limited (CareEdge Global) is a full-service Credit Rating Agency (CRA) with a mission of **Empowering Global Capital Market Participants Through Unrivalled Insights and Expertise**. As the first CRA registered and authorized by the International Financial Services Centres Authority (India), CareEdge Global is uniquely positioned to provide comprehensive ratings on a global scale. A part of the CareEdge Group, which is a knowledge-based analytical organisation offering a wide range of services in Credit Ratings, Analytics, Consulting, and Sustainability. Established in 1993, our parent company, **CARE Ratings Limited (CareEdge Ratings)**, stands as India's second-largest rating agency.

Disclaimer

This disclaimer applies to each credit rating report and/ or credit rating rationale ('report') that is provided by CareEdge Global IFSC Limited ('CareEdge Global').

Ratings from CareEdge Global are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/ instruments or to make any investment decisions. The report is not a solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CareEdge Global assumes no obligation to update its opinions following publication in any form or format although CareEdge Global may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the investor, user, its management, employees, advisors and/ or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. Therefore, the report is not intended to and does not constitute an investment advice. The report should not be the sole or primary basis for any investment decision. CareEdge Global is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CareEdge Global. CareEdge Global does not act as a fiduciary by providing the rating.

Any unsolicited ratings assigned by CareEdge Global are based on publicly available information as CareEdge Global may or may not have access to documents / information or participation from management of such issuers. While CareEdge Global has obtained information from sources it believes to be reliable, CareEdge Global does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/ or relies on in its reports. CareEdge Global ratings are subject to a periodic review, which may lead to revision in ratings. CareEdge Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CareEdge Global has in place a ratings code of conduct and policies for managing conflict of interest.

Neither CareEdge Global nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents guarantee the accuracy, completeness or adequacy of the report, and shall not have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. CareEdge Global DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CareEdge Global or its associated entities or persons be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

This report does not constitute an offer of services. This report is solely for use in the jurisdiction of IFSCA, GIFT City in Gandhinagar. Without limiting the generality of the foregoing, nothing in the report is to be construed as CareEdge Global providing or intending to provide any services in jurisdictions where CareEdge Global does not have the necessary licenses and/ or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CareEdge Global and the user.

For latest rating information on any instrument of any company rated by CareEdge Global, you may visit our website www.careedgeglobal.com.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CareEdge Global.

"© 2025, CareEdge Global IFSC Limited, a wholly owned subsidiary of CARE Ratings Limited. All Rights Reserved.

This content is being published for the purpose of dissemination of information. Any use or reference to the contents on an "as-is" basis is permitted with due acknowledgement to CareEdge Global IFSC Limited. Reproduction or retransmission in whole or in part is prohibited except with prior written consent from CareEdge Global IFSC Limited.

CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
CIN-U66190GJ2024PLC151103