

AYE [आय] [अय]

Aye Finance Limited is a mid-layer NBFC dedicated to serving micro, small, and medium enterprises (MSMEs) across India. The company offers business loans for working capital and expansion, secured either by hypothecation of business assets or by property. Its customers span manufacturing, trading, services, and allied agriculture sectors. Aye Finance primarily caters to underserved micro enterprises with annual turnovers between ₹2.0 million and ₹10.0 million, most of which operate in semi-urban regions. As of 30 September 2025, the company serves 5,86,825 active unique customers across 18 states and 3 union territories, with a diversified assets under management (AUM) of ₹60,276.22 million.

Investment Rationale:

Positioned to Capture Structural Growth in India's Underserved MSME Credit Market

- It operates in the underpenetrated micro-enterprise lending segment, serving businesses with ₹2–10 million turnover that are largely underserved by traditional banks.
- India's MSME credit gap of ~₹117 trillion presents a massive long-term growth opportunity for specialized lenders like Aye Finance.
- MSME credit is expected to grow at 17–19% CAGR between FY25–FY27, supported by formalisation, GST adoption, digital payments, and government initiatives.
- The company's focus on semi-urban and rural markets, where credit penetration remains low, provides strong growth potential.
- Its established presence and favourable industry tailwinds position it well for scalable and sustained long-term growth.

Highly Granular & Diversified Loan Portfolio Supports Sustainable Growth and Risk Mitigation

- It has a highly granular and diversified portfolio with ₹60,276 million AUM and ~586,825 active customers, lending across manufacturing, trading, services, and allied agriculture.
- Small ticket sizes of ₹50,000 to ₹1.5 million reduce concentration risk and enhance portfolio stability and predictability of credit losses.
- A meaningful portion of the loan book is secured, providing collateral protection and improving recovery prospects.
- GNPA rose to 4.85% in H1 FY26 due to broader MSME sector stress, but the increase appears cyclical rather than indicative of structural underwriting weakness.

Extensive Physical Distribution Network Provides Strong Competitive Moat and Embedded Operating Leverage

- It has a strong physical network of 568 branches across 18 states and 3 union territories, with deep presence in MSME-heavy regions, strengthening customer reach and acquisition.
- Mature branches generate significantly higher AUM (₹135.47 million vs ₹61.83 million), highlighting strong scalability and operating leverage as branches mature.
- Future growth will be driven by improving productivity of existing branches, supporting higher AUM per branch, better cost efficiency, and improved margins and return ratios.
- Its on-ground presence enhances underwriting quality, strengthens customer relationships, and improves collection efficiency, creating a strong competitive moat.

Proprietary Cluster-Based Underwriting Model Enables Scalable Growth with Risk Discipline

- They use a proprietary cluster-based underwriting model that leverages localized industry knowledge, field verification, and cash-flow analysis instead of relying solely on formal credit metrics.
- This approach enables lending to underserved micro enterprises while maintaining strong risk discipline and underwriting accuracy.
- The model creates a strong competitive advantage and high entry barriers for traditional lenders and fintech competitors

Valuation and Outlook: India's MSME lending sector is witnessing a structural shift driven by rising formalization, digitization, and increasing credit penetration in underserved semi-urban and rural markets. Within this evolving landscape, Aye Finance is well positioned as a specialized lender to micro enterprises, supported by its differentiated cluster-based underwriting model and deep branch-led distribution. The company operates in a large, underpenetrated market, with MSME credit expected to grow at ~17–19% CAGR over FY25–FY27, providing strong long-term growth visibility with a granular AUM base of ₹60.3 billion across ~586k customers and diversified secured lending products, the company benefits from strong revenue visibility and portfolio resilience. As branch productivity improves and operating leverage strengthens, it could deliver sustained earnings growth and margin expansion. We recommend investors to subscribe to the issue with a long-term investment horizon, supported by structural industry tailwinds, scalable business model, and potential for long-term value creation.

Key Financial & Operating Metrics (Consolidated)

In INR mn	Revenue	YoY (%)	NIM %	PAT	EPS	ROE	ROA
FY23	5664.85	44.34	13.54%	438.53	2.29	6.34	1.63
FY24	9486.86	66.86	15.56%	1716.79	8.95	18.14	4.33
FY25	13,259.60	40.33	15.31%	1,712.70	8.93	12.21	3.08

Issue Snapshot

Issue Open	09-Feb-26
Issue Close	11-Feb-26
Price Band	INR 122 - 129
Issue Size (Shares)	5,50,38,759
Market Cap (mn)	INR 31835

Particulars

Fresh Issue (INR mn)	INR 7100
OFS Issue (INR mn)	INR 3000
QIB	75%
Non-institutionals	15%
Retail	10%

Capital Structure

Pre Issue Equity	19,17,45,507
Post Issue Equity	24,67,84,266
Bid Lot	116 Shares
Minimum Bid amount @ 122	INR 14152
Maximum Bid amount @ 129	INR 14964

Share Holding Pattern

	Pre Issue	Post Issue
Promoters	0.00%	0.00%
Public	100.00%	100.00%

Particulars

Face Value	INR 2
Book Value	INR 95.97
EPS, Diluted	INR 6.94

Objects of the Issue

- Augmenting our capital base to meet our Company's future capital requirements arising out of growth of our business and assets

Rahul Harlalka

Research Analyst

Registration Number: NISM-202200071339

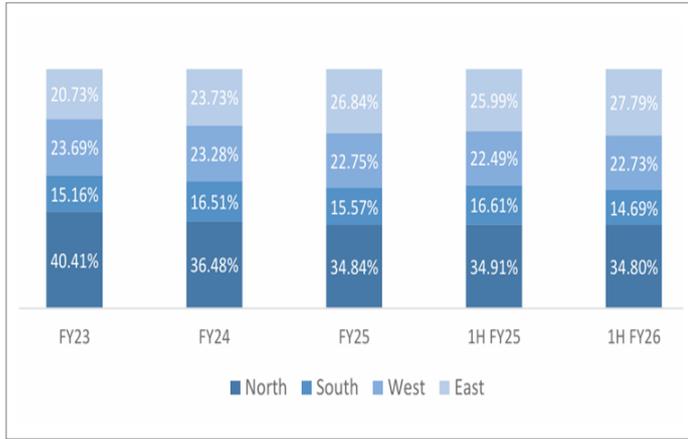
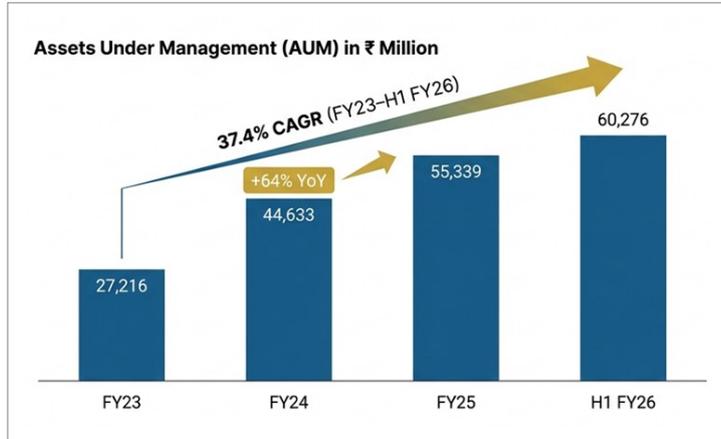
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Aye Finance primarily caters to underserved micro enterprises with annual turnovers between ₹2.0 million and ₹10.0 million, most of which operate in semi-urban regions. As of 30 September 2025, the company serves 5,86,825 active unique customers across 18 states and 3 union territories, with a diversified assets under management (AUM) of ₹60,276.22 million.

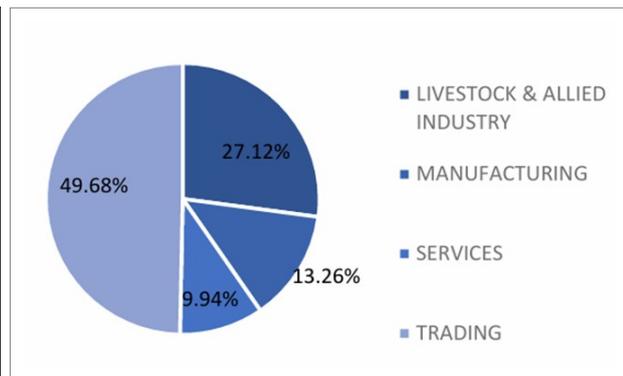
Geographical Breakup of AUM



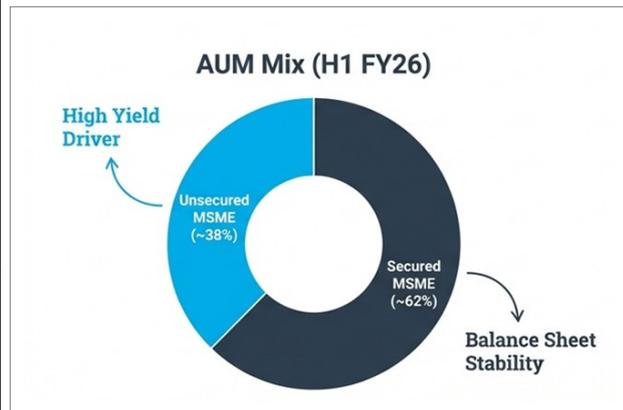
Product Offerings

SL. NO	Product Offering	Type of Collateral	Ticket Size	Tenor	Interest Rate (As on 30 th September 2025)
1.	Mortgage Loans	Fully secured against property collateral (mostly self-owned residences or self-owned business premises) and a contract of hypothecation of working assets, finished goods and machinery	₹ 0.10 million to ₹ 1.50 million	48 months to 180 months	Upto 26% PA
2.	'Saraal' Property Loans	Fully secured against property collateral (all kinds of properties) and a contract of hypothecation of working assets, finished goods and machinery	₹ 0.05 million to ₹ 0.60 million	36 months to 60 months	Upto 28% PA
3.	Secured Hypothecation Loans	Fully secured against a contract of hypothecation of working assets, finished goods and machinery	₹ 0.05 million to ₹ 0.40 million	6 months to 42 months	Upto 32% PA
4.	Unsecured Hypothecation Loans	Partly secured against a contract of hypothecation of working assets, finished goods and machinery	₹ 0.05 million to ₹ 0.40 million	6 months to 42 months	Upto 32% PA

AUM BREAKUP by Industry (As on 30th September 2025)

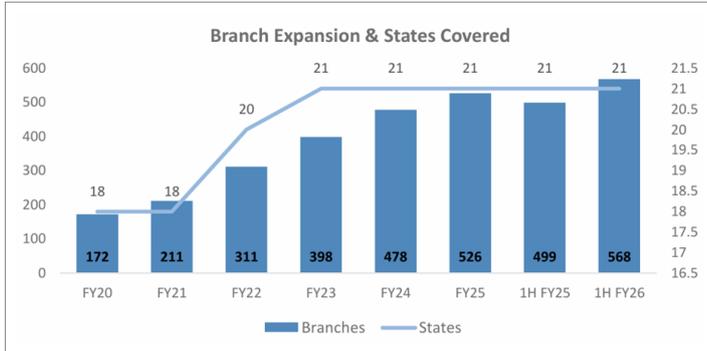


AUM Breakup by Product Offerings (As on 30th September 2025)



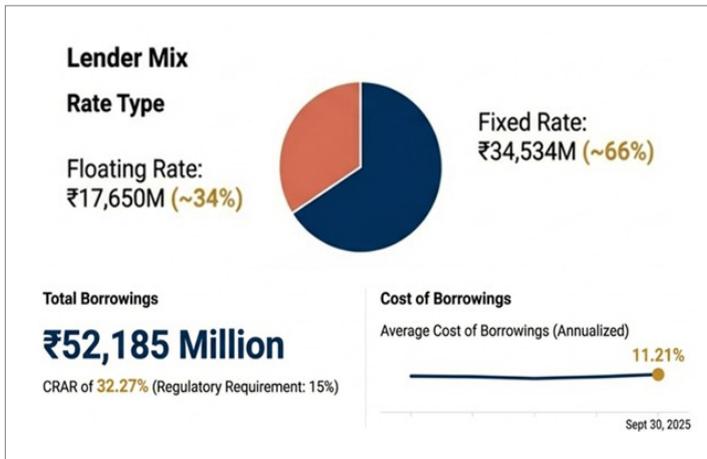
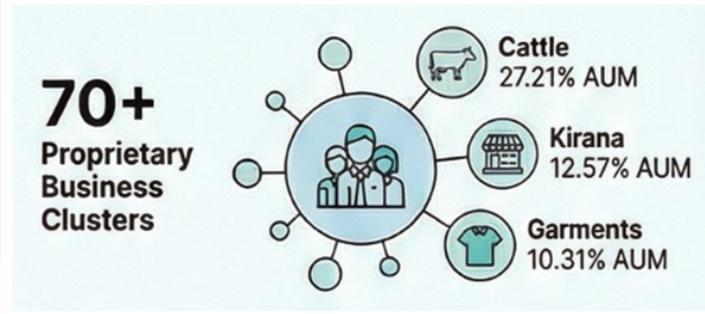
Branch Network

They have a broad network of 568 branches spread across 18 states and 3 union territories, with Bihar, Uttar Pradesh, Rajasthan, Madhya Pradesh and Maharashtra being our key states. Over the last three Fiscals and in the six months ended 30th September 2025, they have expanded significantly, adding more than 260 branches. The average branch AUM was ₹ 105.00 million, with each branch having an average of 1,033 customers. The average AUM of branches that have over three years vintage is ₹ 135.47 million, while the branches under three years vintage have an average AUM of ₹ 61.83 million. They intend to reduce the pace of opening new branches as they have adequate geographic diversification. As a higher proportion of branches mature, it will add to the overall average branch AUM.



They have pioneered a 'business cluster' based underwriting methodology

Cluster Based Underwriting Process



Horizontal Clusters	Vertical Clusters			
Grocery Shop	Power loom	Shoes	Glasswork	Woodwork
Tailor	Leather Goods	Iron Works	Crockery	Jewellery
Dairy	Sports Goods	Handicrafts	Lac Bangles	Electronics
Eatery	Electricals	Agri Tools	Hosiery	Brass Work
Beauty Parlor	Rugs and Carpets	Diverse items	Garment	Auto parts

Borrowing Mix

The company has historically funded its growth through a balanced mix of equity and debt, maintaining a stable debt-to-equity ratio (leverage ratio) in the range of 2.56 to 3.04 between 31st March 2023 and 30th September 2025. As of 30th September 2025 the liability profile comprised 59.02% term loans/WCDLs & PTCs, 28.95% NCDs and 12.03% ECBs, enabling effective management of liquidity, maturity alongside a track record of improving credit ratings.

Asset Quality

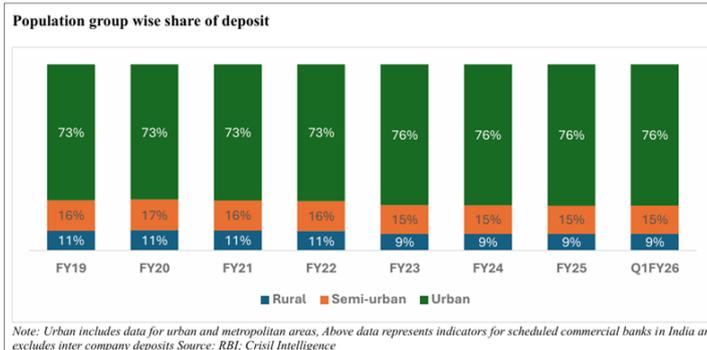
The asset quality of the company has been deteriorating over the last 2 fiscals. As on H1 FY26, the GNPA stood at 4.85%. The increase in our GNPA rates as indicated is primarily due to stress in market conditions, with certain customers becoming overleveraged.



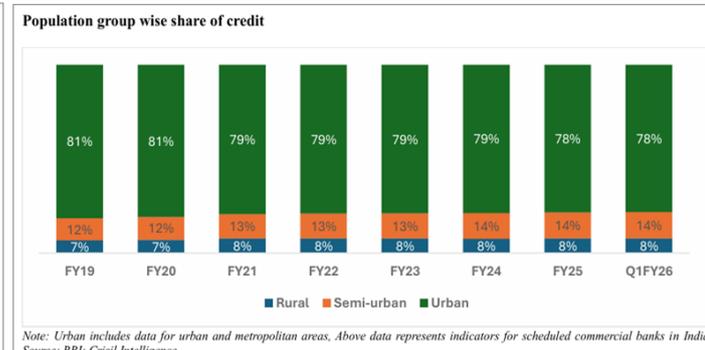
INDUSTRY OUTLOOK

India's rural segment has been a key driver of the country's consumption growth story in recent years. In the past decade, the rural segment in India has expanded at a rapid pace, driven by factors, such as rising disposable income, urbanization, and the proliferation of e-commerce.

Rural India has a crucial role to play, as almost 63% of the population resides in rural areas, as per world bank data for CY24 and as per the Census data of 2011. ~47% of India's GDP comes from rural areas; however, their share is abysmally low at just 9% of total banking deposits and 8% of total banking credit as of March

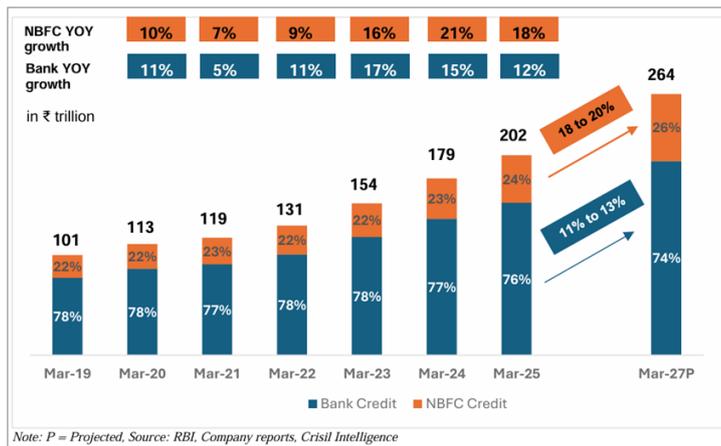


Note: Urban includes data for urban and metropolitan areas. Above data represents indicators for scheduled commercial banks in India and excludes inter company deposits Source: RBI, Crisil Intelligence



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Overall Systemic Credit



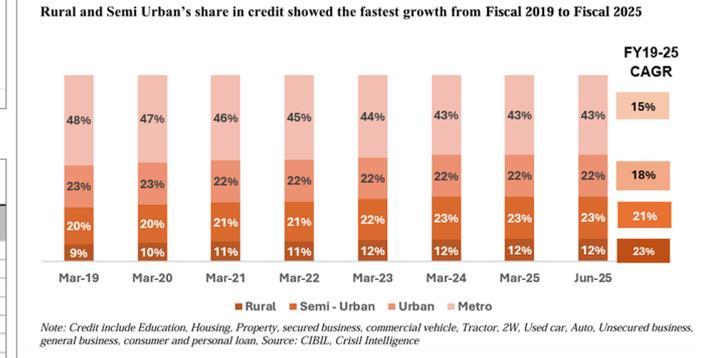
Systemic credit in India grew at a 6-year CAGR of 12% over FY19 and FY25 (₹ 101 trillion in FY19 and ₹ 202 trillion in FY25). Retail credit continues to lead the systemic credit growth in FY25, supported by the focused approach of banks and NBFCs in increasing the retail portfolio. Retail credit portfolio continues to outpace non-retail credit. Going ahead, systemic credit is expected to grow at 12%-14% CAGR between FY25 and FY27.

NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than ₹ 2 trillion AUM at the turn of the century to ₹ 48 trillion at the end of Fiscal 2025. Overall, consolidation in certain corporate groups and other corporate activities indicate buoyancy in the NBFC space and expectations of healthy credit growth.

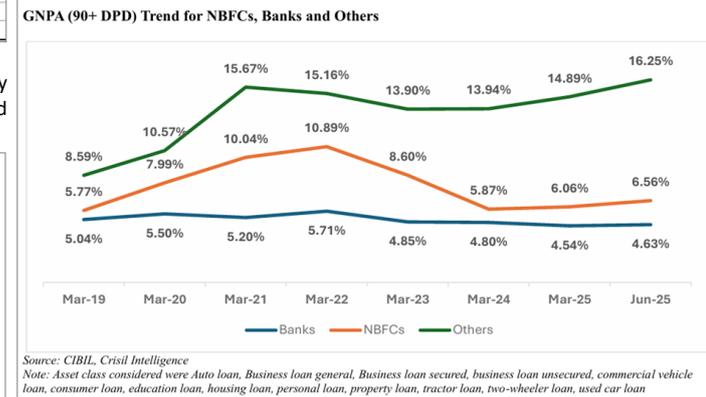
Loan segments driving NBFC growth

Segment (in trillion)	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25	Jun-25	6Y CAGR
Secured MSME	6	7	7	8	10	10	12	12	11%
Unsecured MSME	3	3	3	3	4	5	5	6	13%
Hypothecation MSME	13	14	15	17	20	23	26	26	11%
Housing Loan	4.6	4.6	4.9	5.5	6.0	7.0	8.1	8.3	10%
Vehicle Finance	3.4	3.9	3.9	4.0	4.8	6.5	7.8	7.9	15%
LAP	2.0	1.7	2.1	2.4	2.8	3.8	5.0	5.3	17%
Personal Loans	0.7	1.0	1.0	1.5	2.1	3.0	3.7	3.9	32%
Business loan - Unsecured	0.1	0.2	0.1	0.2	0.4	0.8	1.1	1.2	49%
Business loan - Secured	0.1	0.1	0.2	0.2	0.4	0.8	1.1	1.1	55%
Education Loan	0.1	0.1	0.1	0.1	0.2	0.4	0.6	0.7	42%
Consumer Loan	0.2	0.2	0.2	0.3	0.4	0.5	0.6	0.7	23%

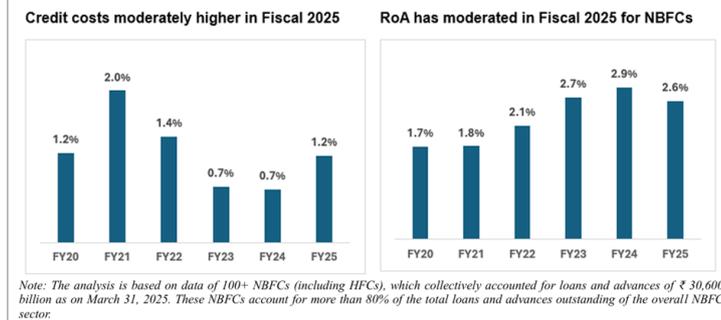
A moderate decrease in credit costs in FY24 contributed to improved profitability for NBFCs, but this positive momentum was halted in FY25 as the industry faced asset quality challenges, leading to higher credit costs and reduced profitability.



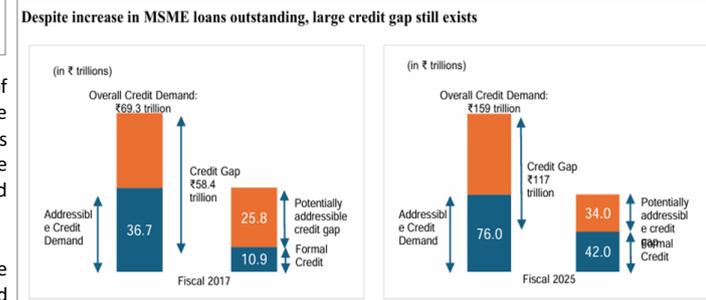
Asset Quality



Key ratios of NBFCs



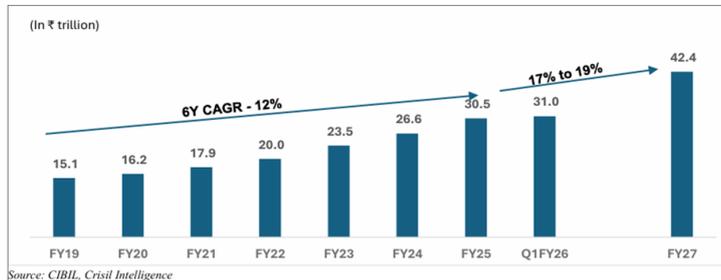
MSME Credit Gap



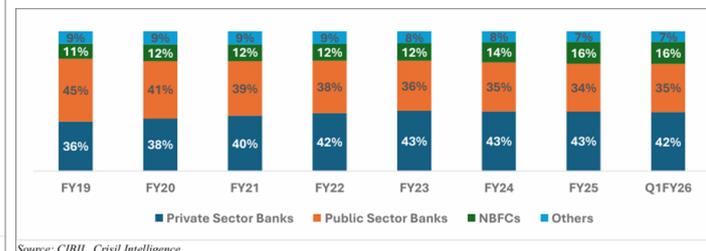
MSMEs need credit for various purposes including term loan for expansion of business and working capital for daily operational activities. These credit needs are being fulfilled by banks and NBFCs (including Fintech companies). Banks and NBFCs offer various credit products based on the need of MSMEs. Such products include Loan against property, Supply chain financing, Inventory funding, Unsecured business loans, etc.

High risk perception and prohibitive cost of delivering services physically have constrained formal lending to MSMEs. The emerging self-employed individuals and micro, small and medium enterprise segment is largely unaddressed by lending institutions in India.

Overall MSME Credit Outstanding



Overall MSME portfolio outstanding to grow at 17% to 19% CAGR between Fiscal 2025 and Fiscal 2027.



Private sector banks and NBFCs have grown their market share in overall MSME portfolio. Banks as a whole have a cumulative share of 79% in overall MSME credit as of Q1 Fiscal 2026. The share of NBFCs in overall MSME portfolio has increased from 11% as of Fiscal 2019 to 16% as of the first quarter of Fiscal 2026. Going forward, NBFCs are expected to drive the growth of MSME lending and increase its share in overall MSME credit, with banks following closely.

GROWTH DRIVERS FOR MSME CREDIT

The MSME credit segment is witnessing strong growth driven by a large and widening credit gap (estimated at around ₹103 trillion in FY2024), increased formalisation and digitisation of MSMEs, and the adoption of advanced technology-based underwriting models using alternative data such as GST records, digital payments, and bank transactions. These developments have enabled faster loan processing, improved credit assessment, and expanded access to previously underserved borrowers, especially in semi-urban and rural areas. Government initiatives such as Udyam registration, Mudra loans, CGTMSE guarantees, and inclusion of retail and wholesale trade under MSMEs have further strengthened credit access and demand. In this environment, NBFCs are emerging as key growth engines due to their flexible underwriting, ability to provide unsecured and small-ticket loans, strong on-ground presence, deeper reach in underserved geographies, faster turnaround times, and use of technology-driven credit models, enabling them to effectively bridge the MSME credit gap and drive financial inclusion and sector growth.

Investment Rationale

Positioned to Capture Structural Growth in India's Underserved MSME Credit Market

The company operates in the highly underpenetrated micro-enterprise lending segment, serving small businesses with annual turnover between ₹2 million and ₹10 million. Traditional banks often avoid this segment due to limited documentation, thin credit histories, and high servicing costs, resulting in a large unmet demand for formal credit. India's MSME credit gap is estimated at ₹117 trillion, highlighting a significant long-term growth opportunity for specialized lenders. MSME credit outstanding is expected to grow at a strong CAGR of 17–19% between FY25 and FY27, driven by formalisation, GST adoption, digital payments, and government support through initiatives like Udyam, Mudra, and CGTMSE. Overall systemic credit in India is also projected to expand at 12–14% CAGR during the same period.

Aye Finance's focus on semi-urban and rural markets, home to nearly 63% of India's population positions it well to capture this opportunity, as formal credit penetration in these regions remains low. Its established presence and early-mover advantage create strong entry barriers and support scalable growth. This positions the company to benefit from structural tailwinds and sustain long-term expansion in India's evolving financial ecosystem.

Highly Granular & Diversified Loan Portfolio Supports Sustainable Growth and Risk Mitigation

They maintain a highly granular and diversified loan portfolio, with ₹60,276 million in AUM and ~586,825 active customers as of September 2025. The company lends across multiple sectors, including manufacturing, trading, services, and allied agriculture, which reduces dependence on any single industry. Its product offerings include mortgage-backed loans, property-backed working capital loans, secured hypothecation loans, and partially secured business loans.

Loan ticket sizes range from ₹50,000 to ₹1.5 million, ensuring broad diversification and limiting exposure to individual borrower risk. This granularity helps reduce concentration risk, enhances portfolio resilience across economic cycles, and improves predictability of credit losses. Additionally, a significant portion of the loan book is secured, providing collateral support and strengthening recovery prospects in case of defaults. Although GNPA increased to 4.85% as of H1 FY26 due to broader MSME sector stress, this rise appears cyclical and driven by macroeconomic conditions rather than any structural weakness in underwriting standards.

Extensive Physical Distribution Network Provides Strong Competitive Moat and Embedded Operating Leverage

They have established a strong physical distribution network with 568 branches across 18 states and 3 union territories as of September 2025, with deep presence in MSME-heavy regions such as Uttar Pradesh, Bihar, Rajasthan, Madhya Pradesh, and Maharashtra. Over the past three years, the company has significantly expanded its footprint by adding more than 260 branches, strengthening its customer acquisition capabilities and geographic reach.

Branch productivity improves meaningfully as branches mature, with average AUM per branch at ₹105 million. Mature branches (over 3 years old) generate significantly higher AUM of ₹135.47 million compared to ₹61.83 million for newer branches, highlighting strong scalability and operating leverage potential. As recently opened branches mature, they are expected to drive AUM growth without proportional increases in operating costs, improving overall efficiency. Going forward, the company plans to slow branch expansion and focus on enhancing productivity of existing branches, which should support higher AUM per branch, better cost efficiency, and improved operating margins and return ratios. Additionally, the company's strong physical presence improves customer relationships, strengthens underwriting quality, and enhances collection efficiency.

Proprietary Cluster-Based Underwriting Model Enables Scalable Growth with Risk Discipline

It uses a proprietary cluster-based lending model that evaluates borrowers based on localized industry knowledge rather than relying only on formal credit scores or financial statements. This approach incorporates field verification, cash-flow assessment, and behavioural insights to underwrite micro enterprises with limited credit histories.

It enables the company to lend to underserved but creditworthy borrowers while maintaining strong underwriting discipline and reducing risk. This model also creates a competitive advantage and high entry barriers for traditional lenders and fintech competitors.

Valuation and Outlook

India's MSME lending sector is witnessing a structural shift driven by rising formalization, digitization, and increasing credit penetration in underserved semi-urban and rural markets. Within this evolving landscape, Aye Finance is well positioned as a specialized lender to micro enterprises, supported by its differentiated cluster-based underwriting model and deep branch-led distribution. The company operates in a large, underpenetrated market, with MSME credit expected to grow at ~17–19% CAGR over FY25–FY27, providing strong long-term growth visibility with a granular AUM base of ₹60.3 billion across ~586k customers and diversified secured lending products, the company benefits from strong revenue visibility and portfolio resilience. As branch productivity improves and operating leverage strengthens, it could deliver sustained earnings growth and margin expansion. We recommend investors to subscribe to the issue with a long-term investment horizon, supported by structural industry tailwinds, scalable business model, and potential for long-term value creation.

FY25 Peer Comparison

Name of the company	Total Income (₹ Million)	PAT (₹ Million)	EPS (Diluted) (₹)	P/E	P/B
Aye Finance Ltd	15,049.87	1,752.52	6.94	18.59	1.34
Five Star Business Finance Ltd	28,479.58	10,724.90	37.64	11.96	1.85
SBFC Finance Ltd	13,067.50	3,451.70	3.85	23.9	2.84

Comparison of KPIs	Unit	Aye Finance Ltd.	Five Star Business Finance Ltd.	SBFC Finance Ltd.
AUM	₹ Mn	55,339	1,18,770	87,470
Disbursements	₹ Mn	42,045	49,700	26,710
ATS	₹ Mn	0.10 - 0.18	0.3 - 0.5	0.95
Number of Branches	Count	526	748	205
Number of Employees	Count	9,102	11,934	4,294
Share of top states by AUM	%	55.6	99	87.1
Cost to Income Ratio	%	50.1	30.9	40
AUM per Branch	₹ Mn	105.2	158.8	426.7
AUM per Employee	₹ Mn	6.1	10.0	20.4
Networth	₹ Mn	16,588.70	63,046.10	31,901.30
ROA	%	3.00	7.40	4.60
Capital Adequacy Ratio	%	35.00	50.10	36.10
Yield on Gross Advances	%	28	23	17.2
NIMs	%	15.3	16.10	9.90
Cost of Borrowing	%	11.70	9.40	9.10
Credit Cost	%	5.20	0.70	0.90
Opex - Overall	%	9.3	5.2	4.5
Opex Employee	%	6.8	4	3.2
PPOP	%	9.2	11.6	6.8
GNPA (%)	%	4.2	1.8	2.7
NNPA (%)	%	1.4	0.88	1.51
PCR (%)	%	72.1	50.8	44.9
Debt to Equity Ratio (x)	times	2.8	1.3	1.7

Income Statement				Balance Sheet			
Y/E (INR mn)	FY23	FY24	FY25	Y/E (INR mn)	FY23	FY24	FY25
Interest income	5,664.85	9,486.86	13,259.60	Source of funds			
Revenue	6,234.25	10,402.18	14,597.30	Equity Share Capital	304.53	399.31	377.90
Expenses:				Reserves	7274.99	11961.75	16205.60
Finance Costs	1991.30	3288.30	4715.80	Total Share holders funds	7579.52	12361.06	16583.50
Employee Cost	2122.00	2752.11	3796.40	Borrowings	13,963	24,766	31,082
Impairment on financial instruments	733.50	1314.01	2888.26	Debt Securities	8,999	10,223	14,181
Total Expenses	3,613.62	5,005.20	7,862.40	Total Liabilities	31,001.23	48,291.15	62,771.30
NIM (%)	13.54%	15.56%	15.31%	Application of funds			
PBT	713.96	2,278.56	2,250.10	Fixed Assets	271.65	317.12	406.20
PAT	438.53	1,716.79	1,712.70	Cash and Bank	3,940	7,303	11,379
EPS	2.29	8.95	8.93	Loans	25,554	40,031	49,502
				Investments	845	106	418
				Other financial assets	228	307	606
				Total Assets	31,001.23	48,291.15	62,771.30

Cash Flow				Key Ratios			
Y/E (INR mn)	FY23	FY24	FY25	Y/E (INR mln)	FY23	FY24	FY25
Profit Before Tax	220.19	296.37	473.55	Growth Ratio			
Adjustment	-99.17	-133.40	64.97	Net Sales Growth(%)	44.34	66.86	40.33
Changes In working Capital	-1776.78	-2336.03	-3523.39	PAT Growth(%)	185.40	291.49	-0.24
Cash Flow after changes in Working Capital	-1655.76	-2173.06	-2984.87	Margin Ratios			
Tax Paid	-38.38	-64.48	-127.78	PBT	12.6	24.02	16.97
Cash From Operating Activities	-1694.14	-2237.54	-3112.64	PAT	7.74	18.1	12.92
Cash Flow from Investing Activities	51.41	-67.96	-183.87	NIM	0.1354	0.1556	0.1531
Cash from Financing Activities	2126.77	1775.37	3898.11	Average Yield	25.46%	26.41%	26.53%
Net Cash Inflow / Outflow	484.04	-530.13	601.60	Return Ratios			
Opening Cash & Cash Equivalents	468.80	952.83	422.70	ROA	1.63	4.33	3.08
Closing Cash & Cash Equivalent	952.84	422.70	1024.30	ROE	6.34	18.14	12.21
				ROCE	10.25	14.29	12.76
				Effeciency Ratios			
				Cost of borrowing (%)	11.80%	11.40%	11.57%
				Cost to Income Ratio (%)	66.03%	50.96%	50.10%
				Total Debt/Equity(x)	3.10	2.88	2.78
				CRAR (%)	31.07%	32.79%	34.92%
				Gross NPA (%)	2.49%	3.19%	4.21%
				Net NPA (%)	1.28%	0.91%	1.40%
				Valuation Ratios			
				P/E	-	-	14.44
				P/B	-	-	1.34

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