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CM RATING 40 / 100

# Aye Finance

## Small ticket lender to micro MSMEs

### **Serving underpenetrated MSME sector, but sectoral volatilities, high credit cost and elevated delinquencies are challenges**

Aye Finance incorporated in 1993 is Delhi based non-banking financial company – middle layer (NBFC-ML) focused on providing loans to micro scale micro, small and medium enterprises (MSMEs) across India. It offers a range of small ticket business loans with average ticket size on disbursement at Rs 1.8 lakh for working capital and business expansion needs, against hypothecation of working assets or against security of property to customers across manufacturing, trading, service and allied agriculture sectors. The company has a complete range of products, covering both secured and unsecured loans, to target customer segment.

Expertise in underwriting business cash flows of a variety of business clusters has enabled to scale up operations. Assets under management (AUM) of the company has grown at a CAGR of 42.60% between FY2023 and FY2025 and increased to Rs 6028 crore at end September 2025. The company caters to underserved micro scale enterprises in India, with 586,825 active unique customers across 18 states and 3 union territories.

The company is one the most geographically diversified lender amongst the Peer MSME Focused NBFCs. No single state accounts for more than 15.77% of total AUM, and the top five states collectively contribute 57.00% to overall AUM end September 2025. AUM is well distributed across regions, with 34.80% in the North, 27.79% in the East, 22.73% in the West and 14.69% in the South, end September 2025. AUM is also spread across various types of industries, ensuring a balanced presence in both regional and sectoral terms. This strategic distribution of portfolio across India reduces the risk of geographic concentration and strengthens risk management and operational resilience.

The company has pioneered a ‘business cluster’ based underwriting methodology, which has been developed from specific understanding of over 70 business clusters across India end September 2025. The rigor in evaluating creditworthiness is based on an estimation of business cash flows and profit margins of a specific category of business, namely a ‘business cluster’, developed from deep understanding of over 70 business clusters end September 2025. This underwriting is backed by collection capabilities.

The company employs a ‘phygital’ distribution model, which is a combination of ‘high touch’ approach (namely, contact by branch teams) and high-tech digital capabilities. It has a pan-India network of 568 branches across 18 states and 3 union territories. The focus is on using end-to-end technology to streamline operations across sourcing, underwriting, disbursement and collections. Use of data science models have been deployed in a variety of areas like underwriting, collection, employee hiring and customer contact optimization.

Gross NPA ratio has increased from 2.49% at end March 2023 to 4.21% at end March 2025 and 4.85% end September 2025.

The capital adequacy ratio was 32.27%, with Tier I capital comprising 32.27% and Tier II capital comprising Nil at end September 2025.

The credit ratings have consistently improved over the years, and end September 2025, with credit rating of ‘A’ by ICRA and India Ratings, and ‘B+’ with a positive outlook by CARE Edge Global.

Sanjay Sharma, founder and Managing Director, holds a B. Tech degree from IIT Bombay and a post graduate diploma from IIM, Bangalore. He started his long career in banking and financial services with the

HSBC in 1988. He was also previously associated with Standard Chartered Bank, HDFC Bank, ICICI and Max New York Life Insurance Company Limited and Tamweel International.

## **The Offer and the Objects**

The initial public offer (IPO) consists of fresh issue to raise Rs 710 crore through issuance of 5.82 crore equity shares at the lower band of Rs 122 per share (face value Rs 2 per share) and 5.50 crore equity shares at the upper band of Rs 129 per share.

The issue also consists of Offer for Sale (OFS) of Rs 300 crore through issuance of 2.33-2.46 crore equity shares. The OFS from investor selling shareholders is Rs 30 crore from Alpha Wave India I LP, Rs 139.763 crore from MAJ Invest Financial Inclusion Fund II K/S, Rs 82.5 crore from LGT Capital Invest Mauritius PCC with Cell E/VP and Rs 17.737 crore from Vikram Jetley.

The company has no identifiable promoter and promoter shareholding in the company remains nil.

The issue is to be made through the book-building process and will open on 09 February 2026 and will close on 11 February 2026.

The company proposes to utilize the Net Proceeds from the Fresh Issue towards augmenting the capital base to meet future capital requirements.

## **Strengths**

Aye Finance is uniquely positioned in the micro enterprise lending space with a full product line of small ticket secured and unsecured loans to serve a large unaddressed customer segment.

In addition to providing loans secured against property as collateral, the company has expanded coverage to include a large number of businesses that intend to borrow loans against hypothecation of their working assets.

With technological and operational capabilities, underwriting expertise and experience over the years, the company is well-positioned to capitalize on strong growth runway and large target addressable market (tam) in catering to underpenetrated MSME sector.

In India, 98% of MSMEs are classified as micro enterprises, highlighting a substantial TAM for financial services. Despite the significant demand, only a very limited number of organized NBFCs or banks serve these customers.

MSMEs in India contribute approximately 30% to the national GDP and face a substantial unmet credit demand estimated at Rs 103 lakh crore.

Strong sourcing capabilities supported by a diversified pan-India presence and high customer retention. The distribution footprint across India covers 415 districts, spanning 18 states and 3 union territories, with 568 branches across India.

Entire in-house origination ensures quality sourcing and high regular customer engagement.

The company has witnessed the highest reduction in cost to income ratio from FY2023 to FY2025 to the extent of 16%, which was the highest reduction among the Peer MSME Focused NBFCs.

There is high a high level of customer stickiness evident in low foreclosure rate of less than 2.86% (annualized) for FY2025,

The company has robust multi-tiered collection capabilities. It deploys a strong field collection team that is supported by data science models to optimize collection outcomes. Through the effective execution of collection efforts, it ensures that the overdue buckets are managed tightly.

Stage 2 assets ratio at 1.65% end September 2025 was the lowest among the Peer MSME Focused NBFCs

The company follow a 'phygital' distribution model that combines the strengths of physical and digital channels to optimize operations.

The company developed access to diversified lender base and cost-effective financing. The company has accessed capital from 82 different lenders end September 2025.

The company has benefited from investments from Elevation Capital, CapitalG Entities, British International Investment Plc, Lightrock, A91 Partners, Alpha Wave India, and ABC Impact.

## **Weaknesses**

The company serves micro scale businesses that are predominantly located in semi-urban areas, may often be perceived as involving challenges such as limited financial records and reluctance to provide property as collateral for smaller loans.

The customers generally have limited sources of income and credit histories, and may not have tax returns, bank statements, or other documents to accurately assess their credit worthiness.

Such customer segment may pose a higher risk of default than borrowers with greater financial resources and more established credit histories.

The new to credit customer count of 141,311 fresh customers, comprising 37.17% of total advances were new to the formal lending ecosystem and do not have any credit history in the formal lending ecosystem.

The unsecured loan book accounted for 37.97% of loan book at end September 2025. Such unsecured loans pose a higher credit risk as compared to secured loan portfolio because they are not supported by realisable collateral to recover dues in the event of defaults by such customers.

The assets have an average maturity period of 29.23 months, compared to borrowings tenor of 23.43 months. The company may face asset-liability mismatches, which could affect liquidity and adversely affect operations and profitability.

The company charges higher rate of interest to customers than the rate of interest offered by competitors. Some such customers may seek to refinance their loans through balance transfer to other banks and financial institutions. Any material increase in volume of such transfers may reduce interest income and increase origination costs.

The financial services market is being served by a range of financial entities, including traditional banking institutions, captive finance affiliates of players in various industries, NBFCs and small finance banks approved by RBI to enhance credit penetration. Inability to compete effectively in an increasingly competitive industry may adversely affect business.

About 57% of AUM is derived from operations in five states, namely Bihar, Uttar Pradesh, Rajasthan, Madhya Pradesh and Maharashtra and any adverse developments in these states could affect business.

## **Valuation**

Aye Finance has posted 40% growth in revenues to Rs 1325.96 crore, while the operating profit jumped 38% to Rs 874.74 crore. However, the net profit rose mere 2% to Rs 175.25 crore, as the provisions surged 120% to Rs 288.83 crore in FY2025. The revenues have increased 15% to Rs 733.83 crore in H1FY2026. However, the net profit dipped 40% to Rs 64.60 crore for H1FY2026 due to 71% jump in provisions to Rs 172.93 crore.

EPS on post-issue equity for TTM ended September 2025 works out to Rs 5.4. At the price band of Rs 122 to Rs 129, P/E works out to 23.1 to 24.1 times of EPS for TTM ended September 2025.

Post-issue, the book value (BV) will be Rs 98.8, while adjusted BV (ABV) net of net stage 3 assets works out to Rs 94.4 per share at the upper price band. The scrip is being offered at price to Adj BV multiple of 1.4 times at the upper price band.

Among peer NBFCs, Five-Star Business Finance is trading at P/ Adj BV multiple of 2.0 times of adj BV at end September 2025 and SBFC Finance at 3.1 times.

In terms of PE, Five-Star Business Finance is trading at 12.0 times its EPS for TTM end September 2025 and SBFC Finance at 25.9 times.

The ROA of Aye Finance was 3.1% for FY2025. Among the peers, the RoA of SBFC Finance was at 4.4% and Five-Star Business Finance was higher at 8.22% for FY2025.

ROE for Aye Finance was 12.1% in the FY2025. RoE for SBFC Finance was low at 11.6% due to capital raising in IPO and RoE of Five-Star Business Finance was strong at 18.7% for FY2025.

Aye Finance has posted healthy AUM growth at 21% yoy to Rs 6028 crore end September 2025. The AUM of SBFC Finance surged 28.8% to Rs 9938 crore, while that of Five-Star Business Finance increased 17.6% to Rs 12847 crore end September 2025.

Aye Finance has elevated level of GNPA ratio at 4.85% at end September 2025, while that of SBFC Finance stood 2.77% and Five-Star Business Finance at 2.64%.

Aye Finance has kept NNPA ratio relatively low at 1.78%, while that SBFC Finance was at 1.51% and Five-Star Business Finance 1.46% at end September 2025.

<b>Aye Finance: Issue highlights</b>	
For Fresh Issue Offer size (in Rs crore)	
- On lower price band	5.82
- On upper price band	5.50
Offer size (in no. shares crore)	710.00
For Offer for Sale Offer size (in Rs crore)	
- On lower price band	2.46
- On upper price band	2.33
Offer size (in no of shares crore)	300.00
Price band (Rs)*	122-129
Minimum Bid Lot (in no. of shares)	116
Post issue capital (Rs crore)	
- On lower price band	49.99
- On upper price band	49.36
Post-issue promoter & Group shareholding (%)	0.0
Issue open date	09-02-2026
Issue closed date	11-02-2026
Listing	BSE, NSE
<b>Rating</b>	<b>40/100</b>

<b>Aye Finance: Financials</b>					
	<b>2303 (12)</b>	<b>2403 (12)</b>	<b>2503 (12)</b>	<b>2409 (6)</b>	<b>2509 (6)</b>
Income from Operations	566.49	948.69	1325.96	640.24	733.83
OPM (%)	54.52	66.77	65.97	69.35	56.48
OP	308.83	633.45	874.74	444.02	414.5
Other Income	76.85	123.06	179.02	76.81	129.19
PBDIT	385.68	756.51	1053.76	520.83	543.69
Interest (Net)	197.96	326.53	468	229.26	258.86
PBDT	187.72	429.98	585.76	291.57	284.83
Provisions	73.35	131.4	288.83	101.39	172.93
Depreciation / Amortization	11.45	14.54	22.16	9.76	11.34
PBT before EO	102.92	284.03	274.77	180.42	100.56
EO	0	0	0	0	0

PBT after EO	102.92	284.03	274.77	180.42	100.56
Tax Expenses	63.05	112.35	99.52	72.62	35.96
Net Profit	39.87	171.68	175.25	107.8	64.6
EPS (Rs) *	2.6	8.6	9.3	11.4	6.8
Equity	30.5	39.9	37.8	37.8	37.8
Adj BV (Rs)	47.3	59.7	83.7	81.3	85.7
* EPS and Adj BV are calculated on diluted equity as given for each year. Face Value: Rs 2, Figures in Rs crore					
Source: Aye Finance Issue Prospectus					