



Company Overview

Aye Finance Ltd. (AYE) is a middle layer non-banking financial company (NBFC-ML) focused on providing loans to micro scale micro, small and medium enterprises (MSMEs) across India with annual turnovers ranging from Rs. 10-20 Lakhs. They offer a range of business loans 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. They are among the leading NBFCs providing business loans to the largely underserved micro scale enterprises in India, with 586,825 active unique customers across 18 states and three union territories and with assets under management (AUM) of Rs. 6,028 crores, as of September 30, 2025. They offer small-ticket business loans with an average ticket size (ATS) on disbursement of Rs. 1,80,000. Product offerings comprise mortgage loans, 'Saral' Property Loans, secured and unsecured hypothecation loans. Machine learning and data analysis led underwriting based on business cash flows of a variety of business clusters has enabled them to maintain stable credit costs and scale up operations. They are highly diversified geographically through a pan-India network of 568 branches, reducing the systematic risk of the business.

Objects of the issue

The company proposes to utilize net proceeds from the issue towards the following objects:

- ⇒ Augmenting the capital base to meet the company's future capital requirements arising out of growth of business and assets.

Investment Rationale

Unlocking India's Rs. 117 trillion MSME credit gap through a granular, full-stack lending franchise

India's ~6 crore MSMEs, of which nearly 98% are micro enterprises, contribute ~30% to national GDP yet remain significantly underpenetrated from a credit standpoint. As per CRISIL (FY25), total MSME credit demand stands at ~Rs. 159 trillion, with only 27-28% met through formal channels, leaving an estimated credit gap of ~Rs. 117 trillion. Structural constraints such as high perceived risk, limited documentation and elevated physical distribution costs have historically restricted formal lenders from effectively serving this segment. While banks have remained the major source of finance for MSMEs with credit requirements of Rs. 10 lakhs to Rs. 50 lakhs, the share of NBFCs has increased from 9.2% in FY19 to 16.6% in FY25, and is expected to rise further in this segment. AYE is a play into this untapped market with unique positioning in the micro enterprise lending space. It is the only provider among the peer MSME focused NBFCs to offer a full product line (secured and unsecured) to serve a large unaddressed customer segment. While AYE provides mortgage loans, they also specialise in efficient underwriting loans to businesses that intend to borrow loans against hypothecation of their working assets. This is evident from their product mix as on September 30, 2025 wherein mortgage form ~20% of the loan book while the remaining ~80% is composed of secured and unsecured hypothecation loans. Further with a granular portfolio and an average ticket size of ~Rs. 1,80,000, which is lower than peers, the company benefits from smaller and more affordable repayments, supporting portfolio diversification and improved credit risk management.

Seasoned leadership driving a diversified and disciplined growth engine

The company is led by Sanjay Sharma (IIT Bombay, IIM Bangalore), with over three decades of experience across global financial institutions including HSBC, Standard Chartered, HDFC Bank and ICICI Limited. The senior management team brings strong domain depth across lending, risk, technology and operations, with prior key leadership roles at various banks. The collective experience spans retail lending, credit underwriting, technology transformation and compliance, providing strong institutional capability to scale responsibly. A key strategy of the team has been on diversification. AYE is geographically the most diversified lender among the peer with no state having more than 15.8% AUM concentration. As of September 30, 2025, their operations span across 415 Indian districts, 18 states and 3 union territories, with 568 branches across India. This wide geographic footprint enables access to a large catchment area for customer acquisition while ensuring that AUM growth remains

Issue Details

Offer Period	9th Feb. 2026 - 11th Feb. 2026
Price Band	Rs. 122 - Rs. 129
Bid Lot	116
Listing	BSE & NSE
Issue Size (no. of shares in crores)	24.7
Issue Size (Rs. in crores)	1,010
Face Value (Rs.)	2

Issue Structure

QIB	75%
NII	15%
Retail	10%

BRLM	Axis Capital Limited, IIFL Capital Services Limited, JM Financial Limited, Nuvama Wealth Management Limited
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Registrar	KFin Technologies Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	100.0%	68.3%
Public	0.0%	31.7%
Total	100.0%	100.0%

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

well distributed across regions, thereby reducing exposure to state-specific economic, regulatory or operational disruptions. Another key differentiator lies in its loan origination strategy. The company follows a fully in-house origination model and does not rely on direct selling agents or third-party sourcing channels. This approach allows for tighter control over customer onboarding, stronger underwriting discipline and better alignment with target customer segments, thereby reducing early delinquencies that may arise from mis-selling. The effectiveness of this model is reflected in its operating metrics, with 29.3 loans per employee in FY25, the highest among peers. The in-house sourcing framework also supports deeper customer engagement, fosters long-term relationships and enhances customer stickiness over time.

Valuation

The company's valuation is supported by strong balance sheet expansion, improving operating scale and sustained profitability. AUM increased from Rs. 2,722 crores in FY23 to Rs. 5,534 crores in FY25, delivering a 42.6% CAGR, while disbursements grew at a 34.9% CAGR to Rs. 4,291 crores over the same period. Net worth expanded at a faster 48.3% CAGR to Rs. 1,659 crores, reflecting internal accrual strength and capital support for growth. Profitability metrics strengthened during the growth phase, with NIM rising from Rs. 369 crores in FY23 to Rs. 858 crores in FY25, registering a 52.6% CAGR, while NIM margins remained healthy at 15.3% in FY25. Operationally, the branch count increased from 398 in FY23 to 526 in FY25 and AUM per branch improved 24% over FY23-25, indicating productivity gains alongside scale. Asset quality metrics reflect growth-led stress but remain supported by provisioning buffers and collection infrastructure. GNPA increased from Rs. 65 crores in FY23 to Rs. 217 crores in FY25, with GNPA ratio rising to 4.21%, while credit cost grew in line with portfolio seasoning to Rs. 289 crores in FY25. Despite this, provisioning coverage ratio remained at 67.6% in FY25, and collection efficiency stayed above 91%, demonstrating recovery discipline. The company continues to maintain strong capital buffers, with CRAR improving to 34.9% in FY25, providing adequate headroom for further expansion. The portfolio mix remains balanced, with fixed-rate loans forming 65% and floating-rate loans 35% as of FY25, enabling margin stability. The net interest income (NII) grew at 42.3% over FY2024-25 period to Rs. 699 crores, while the net profit doubled to Rs. 175 crores over the same period. **At the upper end of the price band of Rs. 129 per share, the issue is valued at a P/B of 1.84x based on FY25 earnings. The valuation is broadly in line with industry peers. Given its scalable model, expanding distribution footprint and improving earnings trajectory, we recommend a "Subscribe" rating for the issue .**

Key Risks:

- ⇒ AYE is subject to the risk of non-payment or default by our borrowers which may adversely affect their financial condition. Gross NPA ratio of the company has increased from 2.5% FY23 to 4.2% in FY25.
- ⇒ The operations depend on the accuracy and completeness of information provided by the customers and third party service providers and their reliance on any erroneous or misleading information may affect the judgement of their creditworthiness, as well as the value of and title to the collateral.
- ⇒ In H1FY26, unsecured loans comprised 38% of total AUM. If AYE are unable to recover such receivables in a timely manner or at all, the cash flows and financial condition may be adversely affected.
- ⇒ Volatility in interest rates could have an adverse effect on their net interest income and net interest margin, thereby affecting the results of operations and cash flows.

Income Statement (Rs. in crores)

Particulars	FY23	FY24	FY25	H1FY26
Interest Earned	623	1,040	1,460	844
Interest income	566	949	1,326	734
Fees and commission income	25	48	54	33
Net gain on derecognition of financial instruments under amortised cost category	12	19	38	29
Net gain on fair value changes	19	25	42	48
Interest Expended	278	464	760	463
Finance cost	198	327	468	259
Net loss on fair value changes	7	6	4	31
Impairment on financial instruments	73	131	289	173
Net Interest Income (NII)	345	576	699	381
Other Income	20	32	45	20
Net Revenue	365	608	745	400
Employee benefit expenses	212	275	380	237
Operating Expenses	82	105	140	81
Profit before Tax (PBT)	71	228	225	83
Taxes	32	56	50	18
ETR (%)	44.2%	24.7%	22.1%	21.8%
Net Profit	40	172	175	65

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in crores)

Particulars	FY23	FY24	FY25	H1FY26
Cash Flow from operating activities	-720	-1,323	-812	-455
Cash flow from/(used in) investing activities	78	83	-39	-15
Net cash flows (used in) / from financing activities	762	1,494	1,255	684
Net increase/(decrease) in cash and cash equivalents	120	254	405	214
Cash and cash equivalents at the beginning of the period	153	273	527	931
Cash and cash equivalents at the end of the period	273	527	931	1,145

Source: RHP, BP Equities Research

Balance Sheet (Rs. in crores)

Particulars	FY23	FY24	FY25	H1FY26
Assets				
Financial Assets				
(a) Cash and cash equivalents	273	527	931	1,145
(b) Bank Balance other than (a) above	121	204	207	228
(c) Derivative financial instruments	3	0	0	32
(d) Loans	2,555	4,003	4,950	5,382
(e) Investments	84	11	42	67
(f) Other financial assets	23	31	61	82
Total Financial Assets	3,060	4,775	6,191	6,936
Non-Financial Assets				
(a) Tax assets	33	52	79	86
(b) Property, plant and equipment	5	9	12	16
(c) Right of use assets	21	21	26	38
(d) Intangible assets under development	0	3	4	4
(f) Other intangible assets	1	1	2	2
(g) Other non-financial assets	5	8	24	33
Total Non-Financial Assets	66	95	148	180
Total Assets	3,126	4,870	6,339	7,116
Equity and Liabilities				
Equity Share Capital	30	40	38	38
Other Equity	724	1,193	1,621	1,690
Total Equity	754	1,233	1,659	1,727
Liabilities				
Financial Liabilities				
(a) Debt securities	900	1,022	1,418	1,511
(b) Borrowings	1,396	2,477	3,108	3,708
(c) Lease liabilities	24	24	28	40
(d) Other financial liabilities	16	59	48	49
Total Financial Liabilities	2,337	3,581	4,603	5,308
Non-Financial Liabilities				
(a) Tax liabilities	0	0	5	5
(b) Provisions	23	30	43	49
(c) Other non-financial liabilities	12	25	29	27
Total Non-Financial Liabilities	35	56	77	81
Total Liabilities	2,372	3,637	4,680	5,389
Total Equity and Liabilities	3,126	4,870	6,339	7,116

Source: RHP, BP Equities Research

Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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