PRIME RESEARCH
Empowering decisions

IPO Note

February 06, 2026

Aye Finance Limited

HDFC securities 25 YEARS
Powering India's Investments

Issue Snapshot:

Issue Open: February 09 – February 11, 2026

Price Band: Rs. 122-129

*Issue Size: Up to Rs 1010 cr (Fresh issue upto Rs 710 crore and Offer for sale of upto Rs 300 crore)

Reservation for:

QIB	atleast	75% eq sh
Non-Institutional	upto	15% eq sh
((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))		
Retail	upto	10% eq sh

Face Value: Rs 2

Book value: Rs 88.66 (Sept 30, 2025)

Bid size: - 116 eq sh and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 38.35 cr

*Post issue Equity: Rs. 49.36 cr

Listing: BSE & NSE

Book Running Lead Manager: Axis Capital Ltd, IIFL Capital Services Ltd, JM Financial Ltd, Nuvama Wealth Management Ltd

Sponsor Bank: HDFC Bank Ltd and Axis Bank Ltd

Registrar to issue: KFin Technologies Ltd.

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	0.0	0.0
Public	98.8	99.1
Others	1.2	0.9
Total	100.0	100.0

*=assuming issue subscribed at higher band

Source for this Note: RHP

Background & Operations:

Aye Finance Ltd (AFL) operates as a prominent Non-Banking Financial Company – Middle Layer (NBFC-ML), specifically tailored to address the financial requirements of micro-scale Micro, Small, and Medium Enterprises (MSMEs) throughout India. The Company serves as a critical bridge for the largely underserved micro-enterprise segment, providing essential credit where traditional banking infrastructure may be limited. AFL offers a comprehensive suite of business loans designed to facilitate both daily working capital needs and long-term business expansion. These financial products are typically offered against the hypothecation of working assets or the security of property, catering to a diverse clientele across the manufacturing, trading, service, and allied agriculture sectors.

As of September 30, 2025, the Company has established itself as a leader in the NBFC space, boasting an impressive portfolio of 586,825 active unique customers. AFL's operational footprint is remarkably broad, spanning 18 states and three union territories. This expansive reach has resulted in Assets Under Management (AUM) totaling Rs 60,276.22 million. The Company focuses on small-ticket business loans, maintaining an average ticket size (ATS) of approximately Rs 0.18 million upon disbursement. This specialized focus on micro-enterprises, combined with a deep expertise in underwriting business cash flows, has enabled the Company to scale its operations profitably while maintaining stable credit costs.

Strategic Growth and Geographical Diversification

One of the most defining characteristics of AFL is its rapid and well-distributed growth. Between Fiscal 2023 and Fiscal 2025, the Company's AUM grew at a Compound Annual Growth Rate (CAGR) of 42.60%. According to the CRISIL Report, AFL is recognized as the fastest-growing NBFC in India among its peer MSME-focused group, recording a year-on-year AUM growth of 23.9%. This expansion has not been restricted to a single region; rather, it is the result of a deliberate strategy of geographical diversification. The Company manages its business across four distinct zones—North, South, East, and West—ensuring that its risk is spread across various economic environments.

The distribution of AFL's AUM reflects this balanced approach: 34.80% in the North, 27.79% in the East, 22.73% in the West, and 14.69% in the South. To further mitigate regional concentration risk, the Company ensures that no single state accounts for more than 15.77% of its total AUM. This diversification strategy provides AFL with numerous opportunities for growth while insulating it from localized economic downturns. By maintaining mature business operations in each zone, the Company has created a resilient platform capable of sustained upward momentum.

The "Phygital" Model and Underwriting Excellence

AFL employs a sophisticated "phygital" operational model, which seamlessly integrates an extensive physical branch network with cutting-edge digital technology and data science. This approach is specifically designed to meet the needs of micro-scale MSMEs that may lack formal business documentation or extensive credit histories. The Company's underwriting expertise is a primary competitive advantage, utilizing a rigorous evaluation process based on the estimation of business cash flows and profit margins within specific "business clusters." As of late 2025, AFL has developed a deep understanding of over 70 distinct business clusters, allowing for highly accurate risk assessment.

This underwriting rigor is complemented by robust collection capabilities. AFL utilizes a multi-tiered collection strategy that includes dedicated field teams at the branch level, tele-collection units, and advanced digital models to optimize recovery rates. By combining the "high touch" of local field teams with "high tech" digital sourcing and disbursement processes, the Company enhances its pan-India presence while maintaining high operational efficiency. Furthermore, an in-house data science and artificial intelligence team supports these efforts, deploying machine learning models that continuously refine business processes and help the Company stay ahead of new market entrants.

Financial Performance and Stability

The financial trajectory of AFL highlights its ability to balance aggressive growth with fiscal discipline. The Company has reported a fluctuating yet healthy Return on Average Total Assets (ROTA), which stood at 1.92% (annualized) as of September 30, 2025. Over the preceding years, it reached peaks such as 4.29% in March 2024, reflecting the inherent profitability of its lending model. AFL has also managed its capital structure effectively, maintaining a debt-to-equity ratio that has remained relatively stable, hovering between 2.56 and 3.04 over the last several reporting periods.

These factors have translated into significant returns for shareholders. The Company's Return on Equity (RoE) saw a substantial increase from 5.46% in March 2023 to a high of 17.28% in March 2024, eventually settling at 12.12% by March 2025. While the RoE for the period ending September 30, 2025, was recorded at 7.63%, the overall trend underscores the Company's capacity for value creation. By leveraging its technological infrastructure and specialized market knowledge, AFL remains well-positioned to navigate the complexities of the Indian financial landscape and continue its trajectory as a leading provider of credit to the MSME sector.

Objects of Issue:

The Offer comprises of the Fresh Issue of upto Rs 7100 million and Offer for Sale of upto Rs 3000 million.

Offer for Sale

Each of the Selling Shareholders shall be entitled to its respective portion of the proceeds of the Offer for Sale after deducting its proportion of the Offer expenses and relevant taxes thereon. The Company will not receive any proceeds from the Offer for Sale, and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.

Utilization of Net Proceeds

AFL proposes to utilize the Net Proceeds towards augmenting its capital base to meet Company's future capital requirements arising out of growth of its business and assets.

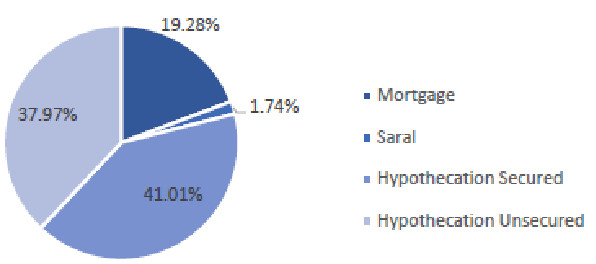
Competitive Strengths

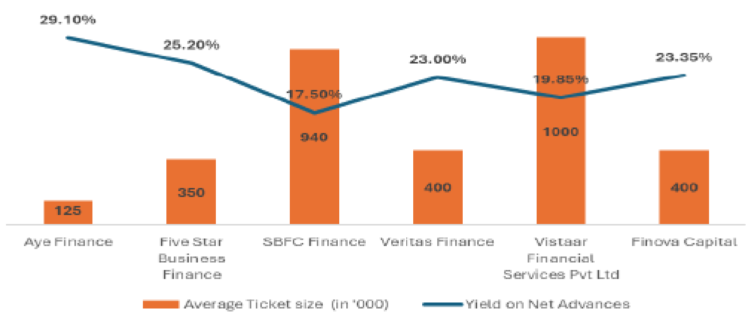
Leading Lender of Small-Ticket Loans to Micro Scale MSMEs with Comprehensive Product Offerings and Focus on Serving Large and Unaddressed TAM: AFL holds a unique position within the micro-enterprise lending landscape. As one of the few providers among peer MSME-focused NBFCs, the Company offers a comprehensive product line comprising both secured and unsecured loans. Beyond traditional property-collateralized lending, AFL has expanded its reach to include businesses seeking loans against the hypothecation of working assets. These disbursements are managed through its branch network and its proprietary supply chain finance platform, SwitchPe.

The market opportunity is vast. India hosts over 57.7 million MSMEs, with 98% classified as micro-enterprises. Despite contributing roughly 30% to the national GDP, these businesses face a staggering unmet credit demand. According to the CRISIL Report, the MSME credit gap increased to Rs 117 trillion as of Fiscal 2025, with only 27% to 28% of demand met through formal financing. While banks traditionally dominated the Rs 0.10 million to Rs 0.50 million segment, the share of NBFCs rose from 9.2% in Fiscal 2019 to 16.6% in Fiscal 2025—a trend expected to continue.

AFL leverages a deep understanding of micro-scale businesses to serve this untapped segment, providing it with a distinct competitive advantage. As of September 30, 2025, the Company operated across more than 70 industrial and business clusters. With a base of 586,825 active customers, AFL is the MSME lender with the largest customer base among its peer NBFCs in India. The Company maintains a granular portfolio with an average ticket size (ATS) on disbursement of approximately Rs 0.18 million. This approach, combined with affordable monthly repayment structures, allows AFL to manage credit risks effectively while protecting its yields.

Product Mix (AUM as on September 30, 2025)

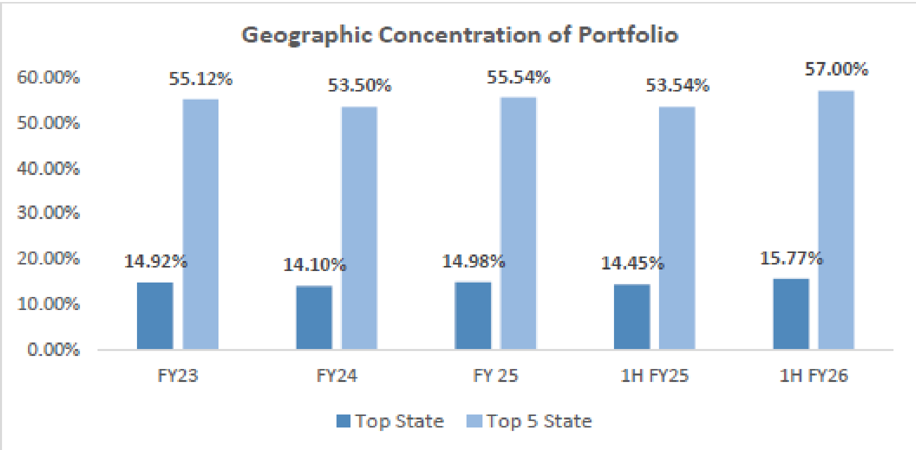




Strong Sourcing Capabilities Supported by a Diversified Pan-India Presence and High Customer Retention: AFL has demonstrated robust financial and operational expansion, characterized by significant growth in its AUM and customer base. The Company saw its AUM rise from Rs 27,215.51 million in March 2023 to Rs 60,276.22 million by September 30, 2025, supported by a consistent increase in disbursements, which reached Rs 23,167.95 million in the first half of Fiscal 2026. Consequently, it has scaled its active unique customer base from 305,524 to 586,825 during this period. Notably, AFL recorded the highest growth in AUM per branch and AUM per employee among peer MSME-focused NBFCs between Fiscal 2023 and 2025.

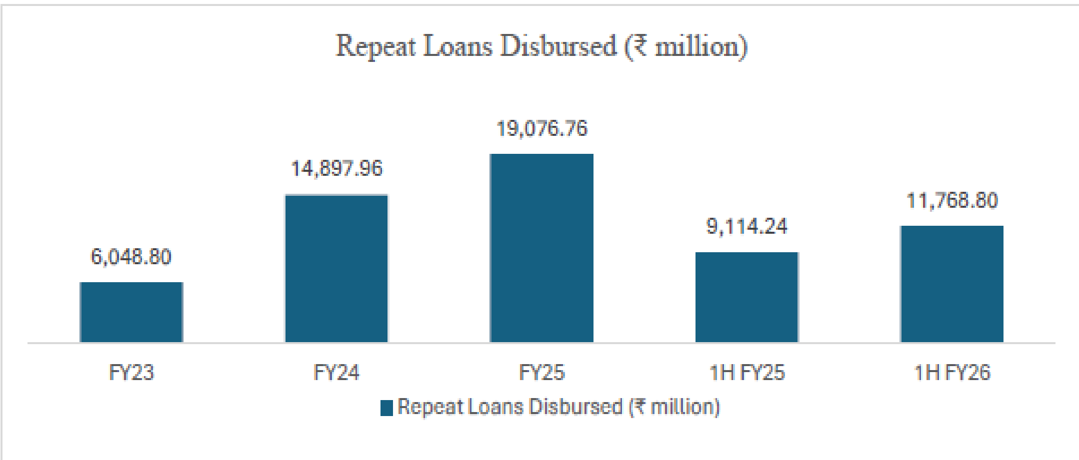
As of September 30, 2025, the Company maintains an extensive footprint across India, covering 415 districts in 18 states and 3 union territories through 568 branches. This wide geographic reach allows AFL to capture a broad catchment area. Its portfolio is highly diversified across four regional zones. It stands out as the most geographically diversified lender among its peers. It maintains the lowest top-state concentration, with no single state exceeding a 15.77% AUM concentration as of March 31, 2025. This strategic distribution insulates the Company from regional or state-specific operational disruptions.

The Company relies entirely on in-house origination to ensure high-quality sourcing and factual risk underwriting. By eliminating third-party agents, AFL has developed a superior understanding of its customer segments and reduced early delinquencies caused by mis-selling. Its workforce includes 1,019 mortgage loan relationship officers and 3,905 hypothecation loan officers who conduct branch-led marketing to build trust and provide hands-on support.



In Fiscal 2025, AFL delivered 29.3 loans per employee—the highest among peer NBFCs. Furthermore, the Company achieved a 16% reduction in its cost-to-income ratio from Fiscal 2023 to 2025, marking the most significant efficiency improvement in its category. Its sourcing-to-disbursal turnaround time has remained consistent, averaging approximately 8.63 days as of September 30, 2025.

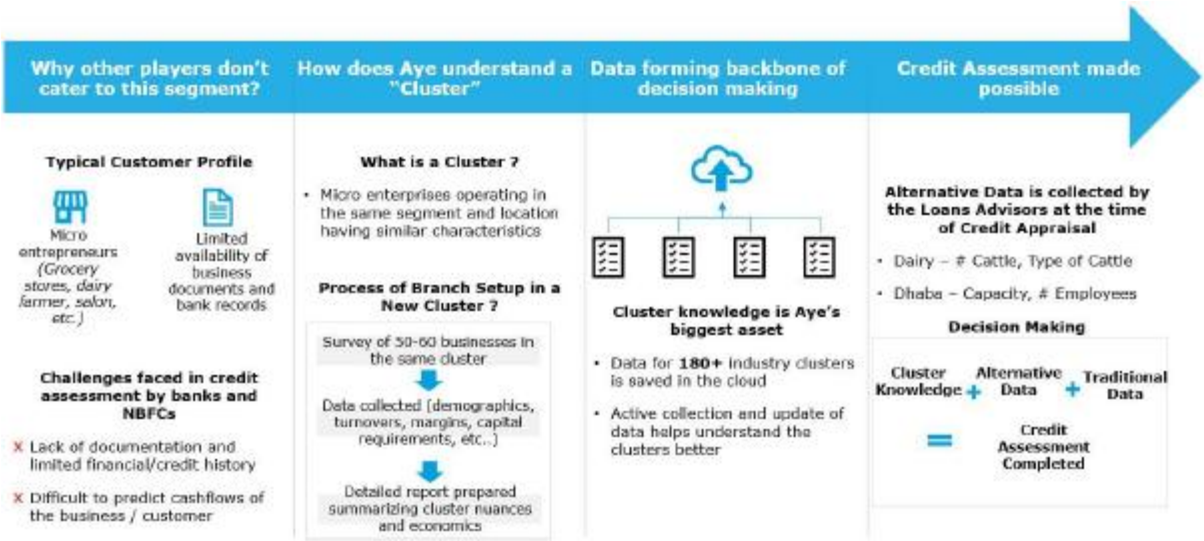
The shorter tenure of AFL's loans facilitates repeat business. The Company benefits from high customer stickiness, evidenced by a low foreclosure rate of less than 2.86% and a Net Promoter Score of 89.65%. As of September 30, 2025, the Company maintains a repeat retention rate of over 41.16%. Additionally, 90.91% of its 546,069 hypothecation loan borrowers own either their residential or business premises. This demographic profile presents a substantial opportunity for AFL to upsell larger ticket-size mortgage loans to its existing base.



Effective Underwriting Methodology: AFL possesses a significant competitive advantage through its sophisticated underwriting expertise, specifically tailored to the challenges of the MSME sector. Lending to micro-enterprises is often complicated by limited financial records and a reluctance to provide property collateral. To address this, the Company has pioneered a unique "business cluster" based underwriting methodology. As of September 30, 2025, it has developed specific insights into over 70 business clusters—ranging from shoe manufacturing in Agra to garment trading in Patna—allowing for reliable estimations of business cash flows based on observable, localized data points.

This approach is bolstered by proprietary data science methods designed to minimize the subjective biases often found in traditional personal discussion-based assessments. AFL utilizes a "phygital" model: initial data collection and preliminary evaluations occur at the branch level, leveraging local market insights, while final decision-making is centralized at the head office. The Company's technology platform ensures that this centralized oversight does not compromise speed, maintaining rapid turnaround times for its customers.

To safeguard asset quality, AFL employs a two-pronged risk management strategy. First, its field credit and vigilance teams track the end usage of loans to ensure proper utilization. Second, the vigilance team conducts risk-based sampling to prevent mis-selling and operational fraud. This rigorous framework has allowed the Company to maintain high asset quality standards, reflected in strong performance metrics regarding non-starters and early delinquency. Ultimately, AFL's deep investment in cluster-based knowledge and data-driven analysis creates a barrier to entry for competitors and ensures flexible, informed lending for the underserved micro-enterprise segment.



Robust Multi-Tiered Collection Capabilities: AFL has engineered a collection framework specifically designed for the repayment behaviors of the micro-enterprise segment. The process prioritizes digital integration by ensuring customers register ACH mandates to minimize field-based cash handling. To maintain high repayment adherence, the Company employs calibrated reminders via SMS, voice bots, tele-calling, and field visits. This proactive strategy has resulted in superior asset quality; its ratio of Stage 2 assets to total gross loans was 1.65% as of September 30, 2025, the lowest among peer MSME-focused NBFCs.

The Company utilizes sophisticated data science to optimize outcomes. A machine learning model for default protection provides advance alerts for high-risk accounts, while a second model segments defaulted accounts for targeted four-day digital campaigns. These campaigns typically recover payments from 25% to 40% of delinquent customers before cases reach the field. AFL operates centralized tele-calling units in Gurugram and Bengaluru with 310 staff members capable of addressing local language needs.

For accounts requiring physical intervention, AFL deploys an extensive in-house team. As of September 30, 2025, this includes over 3,905 loan advisors and 1,019 relationship officers, supported by 880 "soft collection" officers for early-stage delinquencies (below 30 DPD) and 933 "hard bucket" staff for cases exceeding 30 DPD. Because its staff are recruited locally and operate within a limited radius of their branches, they can respond with significant speed. The Company also utilizes a robust collections management system that features GPS logging and electronic receipting to ensure transparency. If a loan reaches the 90 DPD stage, AFL initiates legal and recovery efforts, utilizing specialized legal managers and contracted agencies to handle default notices, settlements, and recoveries for write-off cases.

Building Resilience through Technological Prowess: AFL employs a "phygital" business model that integrates physical presence with digital innovation to optimize micro-enterprise lending. This hybrid approach allows the Company to manage the complexities of cluster-based underwriting and economically service a small average ticket size of Rs 0.18 million. By leveraging its physical branches alongside advanced technology, AFL provides a seamless, cost-effective experience while maintaining tight operational controls.

The Company utilizes a flexible, cloud-based technology stack to scale operations without heavy capital expenditure. Core systems, including Loan Management (LMS), Loan Origination (LOS), and ERP, are integrated via ServoStream to streamline workflows across mobile and web platforms. AFL has achieved significant automation through APIs for KYC validation via UIDAI, credit bureau extraction, and digital payments. Key automation metrics as of September 30, 2025, include:

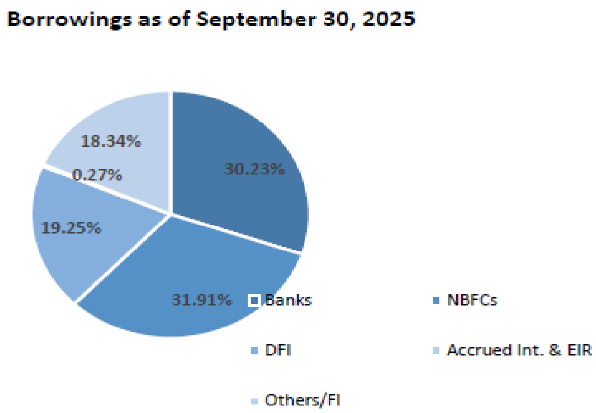
- 100% paperless loan sanctioning and cashless disbursements.
- 98.84% digital signing of loan disbursements.
- 93.45% NACH registration for automated repayments.
- 23.88% straight-through underwriting via data science scores.

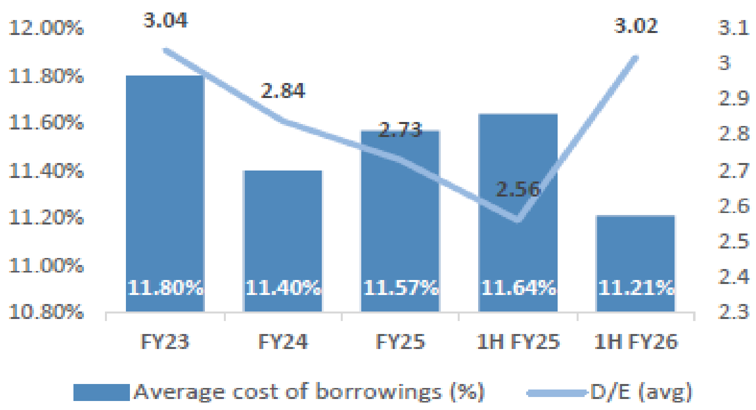
Its in-house data science and AI team works across the customer lifecycle, deploying advanced ML models for bureau screening, bounce likelihood, and repeat credit risk. All systems feed into 'Alteryx' and 'Tableau' data warehouses for real-time monitoring of operational metrics. Furthermore, the Company provides customers with a free mobile application, ensuring transparent access to financial services. This comprehensive, layered technology stack enhances security and efficiency, enabling AFL to deliver end-to-end integrated services that remain a significant barrier to entry for competitors.

Access to Diversified Lender Base and Cost-Effective Financing: AFL has historically funded its expansion through a strategic combination of equity and debt financing. Its debt-to-equity ratio has remained stable, recorded at 3.02 as of September 30, 2025. A key strength of the Company is its highly diversified lender base, which grew from 56 lenders in March 2023 to 82 by September 2025. This broad network—comprising public and private sector banks, foreign banks, developmental financial institutions, and multilateral agencies—mitigates risks related to liquidity, interest rate fluctuations, and concentration.

The Company's liability profile is well-balanced. As of September 30, 2025, its funding mix consisted of:
59.02%: Term loans, Working Capital Demand Loans (WCDLs), and Pass-Through Certificates (PTCs).
28.95%: Non-Convertible Debentures (NCDs).
12.03%: External Commercial Borrowings (ECBs).

AFL has successfully lowered its average cost of borrowings to 11.21% (annualized) as of September 30, 2025. This efficiency is driven by a strategic shift toward stable bank borrowings, which increased from 18.57% in March 2023 to 31.38% by September 2025. Its consistent credit rating improvements—reaching an 'A' rating from ICRA and India Ratings—further reflect its financial credibility.





The Company maintains a vibrant securitization program and a judicious Asset Liability Management (ALM) policy. As of September 30, 2025, AFL reported an average asset tenor of 29.23 months against a liability tenor of 23.43 months. By maintaining a positive cumulative mismatch across all reporting periods, it ensures sufficient liquidity to meet the growing credit demands of its micro-enterprise customers while lowering collateralization costs.

Experienced and Professional Management Team backed by Marquee Investors with a Committed Employee Base: AFL is steered by a professional management team and seasoned industry veterans who have consistently delivered growth and profitability across various business cycles. The leadership brings a deep understanding of India's small business finance landscape, ensuring the Company remains competitive and resilient.

The founder and Managing Director, Sanjay Sharma, an IIT Bombay and IIM Bangalore alumnus, brings over three decades of banking experience from institutions like HSBC, Standard Chartered, and ICICI. The Company's senior leadership further includes experts from diverse financial backgrounds:

- Niraj Kumar Kaushik (Deputy CEO): Formerly with Bajaj Finance and Royal Bank of Scotland.
- Ujual George (COO): Previously held senior roles at RBL Bank and Barclays.
- Jinu Joseph (CTO): Formerly associated with IDFC First Bank and IBM.
- Sovan Satyaprakash (Interim CFO): Previously with Tata Consultancy Services.

This core team is supported by specialized heads in risk, data science, and collections, alongside zonal heads who each possess over 10 years of regional experience. This decentralized expertise allows AFL to scale operations efficiently while maintaining local market relevance.

Furthermore, AFL has secured significant investments from global entities such as Elevation Capital, CapitalG, British International Investment, and Lightrock. These partnerships underscore the trust leading financial institutions place in the Company, providing it with the resources and strategic guidance necessary to drive its future vision.

Business Strategy:

Increasing AUM per Branch through Deep Penetration

A core growth strategy for AFL is the maximization of Assets Under Management (AUM) within its existing infrastructure. As of September 30, 2025, the average branch AUM was Rs 105.00 million, with each branch serving an average of 1,033 customers. The Company observes a significant difference in performance based on vintage; branches older than three years average an AUM of Rs 135.47 million, while those under three years average Rs 61.83 million. Having opened 260 branches over the last three Fiscals and the first half of Fiscal 2026, AFL intends to reduce the pace of new openings to focus on maturing existing locations. When new branches are opened, AFL targets districts near existing ones to ensure efficient logistics and economies of scale. It aims to improve value per customer by effectively converting repeat loans and upselling mortgage products.

Expansion of the Mortgage Loan Portfolio

AFL is aggressively scaling its mortgage loan segment to enhance portfolio stability and long-term profitability. The mortgage portion of the total portfolio grew from 1.86% in March 2023 to 19.28% by September 30, 2025. These loans are secured by immovable property, offering tenures from 48 to 180 months for amounts up to Rs 1.5 million. As of September 30, 2025, the Average Ticket Size (ATS) on disbursement was Rs 0.41 million with an average contractual tenure of 75.12 months. The Company utilizes a "phygital" sourcing strategy, combining open-market customer acquisition with upselling to its existing hypothecation loan customer base. AFL continues to build decentralized mortgage teams within its well-established branch network to tap into secured lending opportunities.

Technology and Data Science Integration

The Company leverages a modern technology stack to drive productivity and maintain scalability. Underwriting Enhancements: AFL is developing image recognition models to support straight-through processing and incorporating surrogate data to complement its cluster-based underwriting. It utilizes geolocation-based analytics and digital footprints to improve the traceability of defaulting customers. The Company intends to implement Generative AI and Robotic Process Automation (RPA) for internal services and continues to upgrade its LOS, LMS, and CMS platforms. Focus remains on developing customer applications to facilitate paperless loan journeys and lower the cost of service.

Operational Efficiency and Automation Metrics

AFL has achieved high levels of operational automation, which is reflected in its performance metrics as of September 30, 2025:

- 100% paperless loan sanctioning.
- 100% cashless disbursements.
- 98.84% digital signing of loan disbursements.
- 93.45% NACH registration for customers.
- 23.88% straight-through underwriting based on data science scores.

Staff productivity has seen significant gains; for instance, the file productivity of the credit team increased from 211 in Fiscal 2023 to 411 in Fiscal 2025.

Optimization of Borrowing Costs and Capital Structure

AFL focuses on maintaining a diversified borrowing profile and a positive Asset-Liability Management (ALM) position. As of September 30, 2025, the Company has established relationships with over 84 counterparties, including private and public sector banks. The average cost of borrowings was reduced to 11.21% (annualized) for the six months ended September 30, 2025, compared to 11.80% in Fiscal 2023. The incremental cost of borrowing for Fiscal 2025 was 11.03%. The Company utilizes various instruments, including term loans, NCDs, and External Commercial Borrowings (ECBs). AFL employs a co-lending strategy with two counterparties as of September 30, 2025, to penetrate deeper into geographies while managing risk.

Market Presence and Product Portfolio

AFL operates as an NBFC primarily serving micro-scale MSMEs for their working capital and expansion requirements. As of September 30, 2025, its footprint spans 568 branches across 415 districts in 18 states and 3 union territories. The Company's product suite includes:
Mortgage Loans and 'Saral' Property Loans: Secured by property, offering lower interest rates and longer tenures.
Hypothecation Loans: Available in both secured and unsecured formats to meet immediate business needs such as acquiring machinery or meeting seasonal demands.

Industry Overview

Macroeconomic Landscape and Economic Outlook

The Indian economy continues to demonstrate resilience in the face of global shocks. Projections indicate a robust growth rate of 6.6% in 2025 and 6.2% in 2026, positioning India as one of the world's fastest-growing economies. This stability is supported by an easing monetary policy cycle; the Reserve Bank of India (RBI) reduced the repo rate throughout 2025, eventually maintaining a neutral stance at 5.5% as of October 2025. Inflation has also softened significantly, dropping to 4.6% in Fiscal 2025 and projected to reach 3.2% by Fiscal 2026.

Demographic and Urbanization Drivers

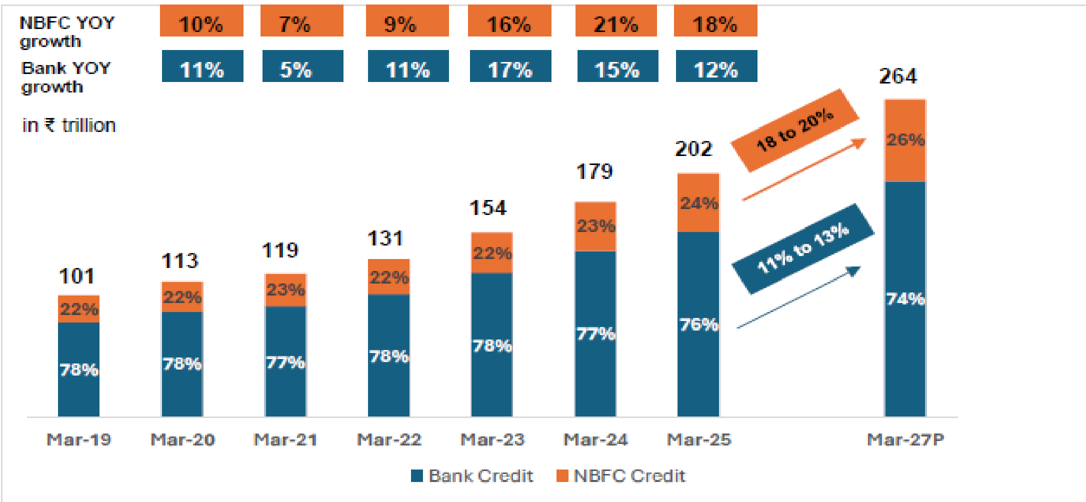
India's economic trajectory is fueled by its vast demographic dividend. With 90% of the population under 60 and the world's highest share of young working-age individuals (27%), rising affluence is expected to drive significant financial product demand. Urbanization is another critical factor; the urban population is projected to reach 40% by 2030, up from 34.9% in 2020. Concurrently, "Middle India"—households with annual incomes between Rs 0.2 and Rs 1.0 million—is expanding rapidly and is expected to grow from 41 million households in 2012 to 181 million by 2030.

The Pivotal Role of MSMEs

The MSME sector remains the backbone of the Indian economy, contributing 30.1% to the GDP and 45% to total exports as of Fiscal 2024. This sector employs approximately 24.4 crore people, making its growth vital for national employment. Despite its importance, there is a significant credit gap, particularly for micro-scale businesses requiring loans under Rs 1.0 million. This segment represents about 12% of overall MSME credit but is underserved due to high operational costs and limited borrower credit history.

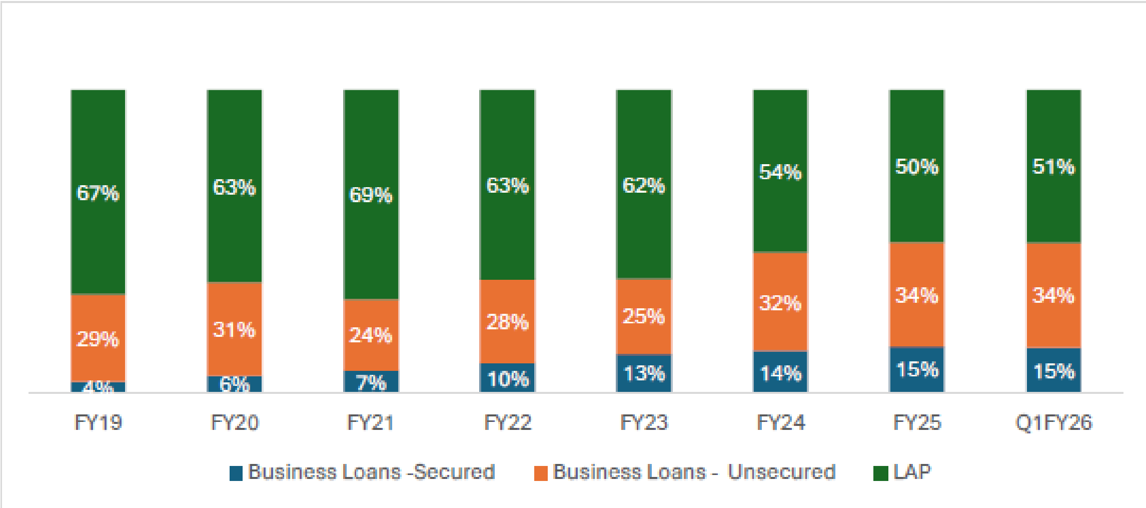
The Evolution of NBFCs and Retail Credit

NBFCs have evolved into critical market leaders, especially in providing credit to new-to-credit (NTC) customers. While banks' share of NTC customers dropped to 19% in early Fiscal 2026, NBFCs increased their reach to 78%. Overall NBFC credit grew at a CAGR of 13.2% between Fiscal 2019 and 2025, with the retail segment leading the surge at 16% CAGR. Going forward, NBFC retail growth is expected to accelerate further to 17%–19% between Fiscal 2025 and 2027.



Sectoral Trends: Secured vs. Unsecured Lending

Lending patterns show a distinct shift toward secured products. Secured business loans have grown exponentially at a 55% CAGR from Fiscal 2019 to 2025, reaching Rs 3,863 billion. In contrast, unsecured business loans witnessed a 33% CAGR. NBFCs have specifically gained ground in the small-ticket loan segment (up to Rs 0.5 million), increasing their market share from 33.36% in Fiscal 2019 to 46.09% in Fiscal 2025.



Geographical Credit Distribution and Asset Quality

While metro cities hold the largest retail credit share (43%), rural areas have seen the fastest growth at a 23% CAGR between Fiscal 2019 and 2025. Rural portfolios initially showed high resilience, but asset quality began to deteriorate slightly in Fiscal 2025, reaching a GNPA ratio of 5.6%. In the MSME segment specifically, NBFCs and private sector banks maintained the lowest GNPA ratios, with NBFCs reporting 4.2% as of early Fiscal 2026 compared to 13.0% for public sector banks.

Future Opportunities and Strategic Enablers

The future of MSME lending lies in a "phygital" approach—combining physical branch presence with advanced digital capabilities. Lenders are increasingly using AI, machine learning, and alternative data points like cash flow analysis to underwrite borrowers with limited formal documentation. Barriers to entry remain high due to the specialized expertise required for cluster-based underwriting, providing a competitive advantage to established players with deep regional knowledge. Overall, the MSME portfolio is projected to grow at a CAGR of 17%–19% through Fiscal 2027.

Key Concerns

- AFL serves micro-enterprises that often lack formal financial records and collateral, making it difficult to assess creditworthiness and increasing the risk of default.
- Any failure to maintain high asset quality or a significant increase in Non-Performing Assets (NPAs) could adversely affect the Company's financial condition.
- AFL's profitability depends on the effective execution of its collection processes; any inability to collect or a delay in repayments can impact cash flows.
- The Company relies on a specialized "business cluster" underwriting methodology; any inaccuracy in these localized data points could lead to poor lending decisions.
- For secured loans, AFL may face challenges in realizing the full value of collateral due to legal delays or declining property values.
- Although geographically diversified, high concentration in specific industries or business clusters could expose the Company to sector-specific downturns.
- Fluctuations in interest rates can impact AFL's cost of funds and the net interest margin (NIM) it earns on its loan portfolio.

- The Company requires substantial capital; any inability to access cost-effective funding from banks or capital markets could hinder growth.
- While AFL maintains a positive ALM, any significant mismatch in the maturity of assets and liabilities could lead to liquidity shortages.
- Any downgrade in the Company's credit ratings (currently 'A' by ICRA and India Ratings) would increase borrowing costs and limit access to capital.
- AFL relies on selling loan pools to manage liquidity; a change in the regulatory environment or market appetite for these instruments could impact its business.
- The Company is highly dependent on its founder, Sanjay Sharma, and other Senior Management; the loss of key personnel could disrupt operations.
- AFL employs a large field team of 3,905 loan advisors and 1,019 relationship officers; high attrition or declining productivity would impact sourcing and collections.
- Rapid expansion of the AUM (from Rs 27,215.51 million in 2023 to Rs 60,276.22 million in 2025) poses risks related to maintaining operational controls.
- AFL faces intense competition from banks, small finance banks, and other MSME-focused NBFCs that may have lower costs of funds.
- As a "phygital" lender, AFL is vulnerable to cyberattacks, data breaches, or system failures in its cloud-based technology stack.
- The Company must comply with stringent RBI regulations; changes in capital adequacy norms or provisioning requirements could impact profitability.
- AFL relies on automated systems (LOS, LMS, CMS) and AI/ML models for underwriting; technical glitches could lead to significant operational disruptions.
- The Company and its directors may be involved in legal proceedings that could result in financial penalties or reputational damage.
- Economic slowdowns, inflation, or changes in government policies regarding the MSME sector in India could adversely affect borrower repayment capacity.

Profit & Loss

Particulars (Rs in million)	H1FY26	FY25	FY24	FY23
Revenue from operations				
Interest income	7338	13260	9487	5665
Fees and commission income	327	544	479	255
Net gain on derecognition of financial instruments under amortised cost category	293	376	189	125
Net gain on fair value changes	477	418	247	190
Total revenue from operations	**8435**	**14597**	**10402**	**6234**
Other income	195	453	315	199
Total income	**8630**	**15050**	**10718**	**6433**
Expenses				
Finance cost	2589	4680	3265	1980
Net loss on fair value changes	308	36	62	66
Impairment on financial instruments	1729	2888	1314	734
Employee benefit expenses	2366	3796	2752	2122
Depreciation and amortization expense	113	222	145	114
Other expenses	700	1177	900	704
Total expenses	**7804**	**12800**	**8439**	**5719**
Profit / (Loss) before tax	**826**	**2250**	**2279**	**714**
Tax expense:				
Current tax	151	666	706	145
Deferred tax charge/(credit)	29	-168	-145	170
Income tax expense	**180**	**498**	**562**	**315**
Profit / (Loss) for the year / period (A)	**646**	**1753**	**1717**	**399**
EPS (Rs.)	3.4	9.5	10.6	2.6

Face Value	2.0	2.0	2.0	2.0
NIM (%)	14.1	15.3	15.6	13.5
RoA (%)	1.9	3.1	4.3	1.5

Balance Sheet

Particulars (Rs in million) As at	H1FY26	FY25	FY24	FY23
ASSETS				
Financial assets				
Cash and cash equivalents	11,451	9,312	5,266	2,726
Bank balances other than cash and cash equivalents	2,278	2,067	2,037	1,214
Derivative financial instruments	317	2	-	31
Loans	53,823	49,502	40,031	25,554
Investments	666	418	106	845
Other financial assets	825	606	307	228
Total financial assets	**69,360**	**61,907**	**47,746**	**30,598**
Non-financial assets				
Current tax assets (net)	281	184	83	41
Deferred tax assets (net)	582	610	439	293
Property, plant and equipment	156	121	90	55
Right of use assets	384	263	214	212
Intangible assets under development	41	41	30	5
Intangible assets	23	23	13	6
Other non-financial assets	333	238	81	51
Total non-financial assets	**1,800**	**1,479**	**949**	**662**
Total assets	**71,160**	**63,386**	**48,696**	**31,260**
LIABILITIES				
Financial liabilities				
Derivative financial instruments	-	-	32	-
Debt securities	15,109	14,181	10,223	8,999
Borrowings (other than debt securities)	37,076	31,082	24,766	13,963
Lease liabilities	402	284	236	243
Other financial liabilities	492	481	554	161
Total financial liabilities	**53,080**	**46,029**	**35,812**	**23,365**
Non-financial liabilities				
Current tax liabilities (net)	46	46	-	-
Provisions	492	433	303	227
Other non-financial liabilities	268	290	255	123
Total non-financial liabilities	**807**	**769**	**558**	**350**
EQUITY				
Equity share capital	378	378	399	305
Other equity	16,896	16,211	11,927	7,240
Total equity	**17,274**	**16,589**	**12,326**	**7,545**
Total liabilities and equity	**71,160**	**63,386**	**48,696**	**31,260**

Source: Company, RHP

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