

AYE Finance - IPO Investment Note

Issue Open	Issue Close	Price Band (₹)	Rating
9 February 2026	11 February 2026	₹122 to ₹129	Neutral

Investment Summary

The company specializes in small-ticket business loans with an average ticket size on disbursement of ₹0.18 million, offering products such as secured and unsecured hypothecation loans, mortgage loans, and 'SaraI' Property Loans to micro-enterprises in manufacturing, trading, and services. Financially, Aye Finance has demonstrated strong growth, with Assets Under Management (AUM) expanding at a CAGR of 37.4% from FY23 to the H1FY26, reaching ₹6027.6 crores as of September 30, 2025. The company reported Gross NPA ratio of 4.85% and a Provision Coverage Ratio of 64.47% as of the same date. The Initial Public Offering aggregates up to ₹1010 crores, comprising a Fresh Issue of ₹710 crore intended to augment the capital base for future growth, and an Offer for Sale of ₹300 crores

Company Overview

Aye Finance Limited is a non-banking financial company classified as an NBFC Middle Layer (NBFC-ML) and registered with the Reserve Bank of India, focused on providing mortgage-backed and hypothecation loans to micro, small and medium enterprises across India. The company was originally incorporated in 1993 as Doda Finance Private Limited and was acquired in 2014 by Sanjay Sharma and Vikram Jetley, after which it was rebranded as Aye Finance. It operates as a professionally managed institution and does not have an identifiable promoter under SEBI ICDR Regulations. Aye Finance is supported by a strong set of global and domestic institutional investors, including CapitalG, Elevation Capital, Alpha Wave, A91 Partners, LGT Capital, and British International Investment. As of September 30, 2025, the company had built a pan-India presence with 568 branches across 18 states and three union territories, operating through a "phygital" model that combines on-ground reach with digital processes to serve over 586,000 active customers, many of whom have limited access to formal credit.

Business Model

Aye Finance operates a phygital business model that blends strong on-ground presence with technology-led processes to serve micro-enterprise customers, many of whom lack formal credit histories. The company maintains an extensive branch network across semi-urban markets to enable face-to-face sourcing and relationship management, while digital systems support cashless disbursements, paperless loan approvals and app-based workflows for underwriting and collections. A key differentiator is its cluster-based underwriting approach, where credit decisions are based on deep, localized understanding of specific business clusters rather than formal financial documents, supported by proprietary data science and machine-learning models. Loan sourcing is carried out entirely in-house, allowing tighter control over customer quality and reducing risks associated with third-party agents. The lending model emphasizes small-ticket, granular loans with a largely secured portfolio and a strong focus on repeat lending, helping diversify risk and build customer lifetime value. This is supported by a multi-layered, in-house collections framework, combining automated repayments with tiered collection teams to manage delinquencies effectively.

Industry Outlook

The outlook for the MSME lending and NBFC sector remains structurally positive, supported by a large and persistent credit gap and improving access to formal finance for micro-enterprises. NBFCs are expected to outpace banks in MSME credit growth, with lending projected to expand at 18–20% over the next few years, driven by dominance in small-ticket loans, deeper penetration in semi-urban and rural markets, and growing adoption of phygital models. While both secured and unsecured business loans are set to grow steadily, faster expansion in unsecured and rural segments has led to some moderation in asset quality, particularly in FY25. Overall, the sector offers attractive long-term growth potential, though sustained performance will depend on disciplined underwriting, effective collections, and prudent risk management as lenders scale.

Investment Rationale

1. Leadership in the Underserved Micro-MSME Segment

Aye Finance focuses on the “missing middle” of the MSME ecosystem—micro enterprises that are often ignored by banks due to small loan sizes, limited documentation and higher operating costs. This segment represents a very large opportunity, with the MSME credit gap estimated at ₹103–117 trillion as of Fiscal 2025. By offering small-ticket loans with an average size of around ₹1.8 lakhs and serving over 5,86,000 active customers, the company has built scale and early leadership in a segment where nearly 98% of enterprises are micro units.

2. Differentiated Cluster-Based Underwriting

A key strength of Aye Finance lies in its proprietary cluster-based underwriting model, designed for borrowers who typically lack formal financial documents such as ITRs or GST returns. The company evaluates credit risk by developing deep insights into over 70 industry clusters, using observable indicators like production capacity and sales activity instead of standard paperwork. This approach is further supported by data science and machine-learning models, enabling more accurate risk pricing and better asset quality in a segment where traditional underwriting methods are less effective.

3. Scalable Phygital Operating Model

Aye Finance operates a phygital model that combines a strong physical branch network with technology-driven processes. With 568 branches across 18 states and three union territories, the company maintains close on-ground engagement for sourcing and collections, while digital systems enable cashless disbursements, paperless approvals, and automated workflows. This model allows the company to service small-ticket loans efficiently and encourages repeat borrowing, supporting customer retention of around 41%.

4. Diversified Funding and Cost Efficiency

The company has built a diversified liability profile, reducing dependence on any single funding source. As of September 30, 2025, Aye Finance had relationships with 83 lenders, including public and private banks, foreign banks, DFIs, and mutual funds. This diversified funding base, along with improved credit ratings (rated ‘A’ with a stable outlook), helps the company access capital at competitive costs and supports sustainable balance sheet growth.

5. Strong Growth and Improving Financial Metrics

Aye Finance has delivered strong financial momentum, with AUM growing at a 37.4% CAGR from Fiscal 2023 to the first half of FY26, reaching ₹6027.6 crores. The company turned profitable in Fiscal 2023 and has continued to improve its returns, with ROE at 12.12% in FY25. Backed by a professional management team and reputed institutional investors such as CapitalG, Elevation Capital, and British International Investment, the company is well positioned for continued growth, subject to disciplined credit execution.

Key Risks

1. Credit risk and rising NPAs

Aye Finance lends primarily to micro and small businesses, which typically have limited financial buffers and are more vulnerable to economic slowdowns. Asset quality has shown some deterioration in recent periods, with the gross NPA ratio rising to 4.85% as of September 30, 2025, compared with 2.49% as of March 31, 2023. If the company is unable to contain slippages or maintain adequate provisioning levels, higher credit costs could impact profitability and capital adequacy.

2. Meaningful exposure to unsecured lending

A sizeable portion of the loan book remains unsecured, which inherently carries higher credit risk due to the absence of collateral. As of September 30, 2025, unsecured loans accounted for 37.97% of AUM. In cases of borrower default, recovery options for such loans are limited and often depend on lengthy legal processes, which may result in lower recoveries and elevated loss ratios.

**3. Dependence on alternative credit assessment methods**

The company's borrower base often lacks formal financial documentation such as income tax returns or GST filings, requiring Aye Finance to rely on its proprietary cluster-based underwriting model and customer-provided information. While this approach enables lending to underserved segments, it also introduces the risk of inaccurate income assessment or misrepresentation, which could lead to higher-than-expected defaults if credit quality is misjudged.

4. Sensitivity to interest rate movements and ALM risks

Aye Finance is exposed to interest rate volatility, as increases in borrowing costs may not always be fully passed on to borrowers, potentially compressing net interest margins. In addition, the company faces asset-liability maturity mismatches, with an average asset tenor of 29.23 months compared to a borrowing tenor of 23.43 months as of September 30, 2025. Such mismatches could create liquidity pressure and increase refinancing risk, particularly in tighter credit markets.

5. Regulatory oversight and compliance requirements

As an RBI-regulated NBFC, the company is subject to regular inspections and ongoing regulatory scrutiny. Any adverse observations related to internal controls, KYC compliance, or reporting standards could result in penalties or operational restrictions. In Fiscal 2023, the RBI sought clarifications on certain deficiencies, highlighting the importance of continued compliance as regulatory standards evolve. Changes in regulations or stricter enforcement could increase compliance costs and impact on business flexibility.

Geography Wise AUM breakdown

Particulars	FY23		FY24		FY25	
	In Cr	%	In Cr	%	In Cr	%
Bihar	334.84	12.30%	600.94	13.46%	828.77	14.98%
Uttar Pradesh	406.19	14.92%	629.41	14.10%	788.37	14.25%
Rajasthan	348.02	12.79%	554.09	12.41%	665.74	12.04%
Others	1632.50	59.99%	2678.85	60.03%	3251.02	58.74%
Revenue from operations	2721.55	100%	4463.29	100%	5533.90	100%

Financial Snapshot**(In Cr)**

Metric	FY23	FY24	FY25
Revenue (₹ Cr)	623.43	1040.22	1459.73
EBITDA (₹ Cr)	280.8	568.93	715.18
Net Profit (₹ Cr)	43.8	171.68	175.25
EBITDA Margin (%)	45%	54.70%	49%
PAT Margin (%)	7.02%	16.50%	12%
EPS (Basic) (₹)	2.28	8.95	9.14

IPO Details and Use of Proceeds

Parameter	Details
Issuer	AYE Finance
IPO Structure	Fresh Issue & Offer for Sale
Issue Size	Total shares :7,82,94,572 shares (agg. up to ₹1,010 Cr) Fresh issue :5,50,38,759 shares (agg. up to ₹710 Cr) Offer for sale : 2,32,55,813 shares of ₹2 (agg. up to ₹300 Cr)
Price Band	₹ 122 to ₹ 129 per share
Face Value	₹2 per share
Post-Issue Market Cap	₹3,183.52 Cr.
IPO Opening Date	February 09, 2026
IPO Closing Date	February 11, 2026
Listing	BSE & NSE
Book Running Lead Managers	Axis Capital Limited. IIFL Capital Securities. JM Financial Ltd. Nuvama Wealth Management

Valuation and Recommendation

Aye Finance Ltd., an NBFC catering to India's underserved micro and small enterprises, is reorienting its portfolio toward an asset-secured lending model by raising the share of mortgage-backed loans, which typically carry higher ticket sizes and longer maturities. This transition is intended to moderate portfolio risk and gradually bring down credit costs, which remain elevated versus key peers. However, financial performance has been weak, with profit declining ~40% YoY in 1HFY26, driven by a sharp uptick in impairment charges, margin compression, and higher operating expenses. At the **upper end of the price band ₹129**, the issue is priced at an adjusted post-issue **P/E of ~18.0x**, which appears demanding given current asset-quality and profitability pressures. We prefer to wait for clearer evidence that the secured-loan mix is translating into structurally lower credit costs and improved earnings stability; therefore, we recommend a **Neutral** rating at the offer price and reassess after observing execution post listing.

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