September 22, 2022

Annapurna Finance Private Limited: Ratings assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	-	95.00	[ICRA]A- (Stable); assigned
Principal protected market linked debenture	-	35.00	PP-MLD [ICRA]A- (Stable); assigned
Non-convertible debentures	22.00	22.00	[ICRA]A- (Stable); outstanding
Non-convertible debentures	510.30	510.30	[ICRA]A- (Stable); outstanding
Subordinated debt	59.00	59.00	[ICRA]A- (Stable); outstanding
Long-term bank facilities – Fund-based term loan	1,100.00	1,100.00	[ICRA]A- (Stable); outstanding
Total	**1,691.30**	**1,821.30**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Annapurna Finance Private Limited's (AFPL) established track record of more than a decade in microfinance lending, its experienced management team and good systems and processes. The company has been able to scale up its portfolio consistently (5-year CAGR[1] of 40%) despite the disruptions caused by the Covid-19 pandemic and it reported assets under management (AUM) of Rs. 6,706 crore as on June 30, 2022 (Rs. 6,553 crore as on March 31, 2022; Rs. 4,793 crore as on March 31, 2021). The increase in the scale of operations has been aided by the good systems and processes installed by the management and timely fund-raising, both equity and debt.

AFPL has a diversified borrowing profile comprising funding relationships with more than 60 lenders as on June 30, 2022 and a good mix of private sector banks, public sector banks, non-banking financial companies (NBFCs) and financial institutions (FIs). The borrowing profile comprised term loans from banks (43%), non-convertible debentures (16%), term loans from NBFCs/FIs (including external commercial borrowings; 16%), subordinated debt (5%) and the securitised/assigned portfolio (20%) as on June 30, 2022. The company raised Rs. 259 crore through compulsorily convertible preference shares (CCPS) and Rs. 150 crore through compulsorily convertible debentures (CCDs) in FY2022, and Rs. 117 crore through CCPS in Q1 FY2023, which helped improve its capitalisation profile while supporting its growth plans. Consequently, the gearing (managed), adjusted for CCPS and CCDs, declined to 4.2 times as on June 30, 2022 (4.8 times as on March 31, 2022) from 5.5 times as on March 31, 2021. In ICRA's opinion, AFPL would require regular equity infusions to support the envisaged growth over the medium term, while maintaining a prudent capitalisation profile.

The ratings are constrained by the deterioration in the asset quality and profitability amid the pandemic. The gross non-performing assets (NPAs) increased to 10.0% as on March 31, 2022 from 7.3% as on March 31, 2021 and remained elevated at 9.8% as on June 30, 2022. As AFPL has created adequate provisions on such assets, the net NPAs were lower at 3.6% as on June 30, 2022 (2.9% as on March 31, 2022; 3.0% as on March 31, 2021). The 90+dpd[2] was reported at 8.3% as on June 30, 2022 (8.0% as on March 31, 2022) compared to 6.6% as on March 31, 2021. In addition, it had an outstanding standard restructured portfolio of 6% of its AUM as on June 30, 2022, a part of which was under moratorium. Going forward, the company's ability to arrest further slippages and recover from its delinquent customers would remain a monitorable.

---

[1] *Compound annual growth rate*

[2] *Days past due*

The profitability indicators remained subdued in FY2022 and Q1 FY2023, given the deterioration in the asset quality and the elevated credit costs. The company reported a net profit of Rs. 17 crore in FY2022 (Rs. 10 crore in Q1 FY2023), translating into a return of 0.2% on average managed assets (AMA) and 1.4% on average net worth, compared to Rs. 2 crore, 0.0% and 0.2%, respectively, in FY2021.

The ratings also factor in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks inherent in the microfinance business. Further, there is scope for improvement in the geographical diversification of operations.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that AFPL will continue to benefit from its experienced management team, good systems and processes and diversified borrowing profile, while expanding its scale of operations and improving its profitability from the recent lows.

Key rating drivers and their description

Credit strengths

Established track record of operations – Promoted by People's Forum (PF), a society registered in Odisha, AFPL is one of the largest NBFC-microfinance institutions (NBFC-MFIs) in India by AUM. It has an established track record of more than two decades, including microfinance lending through PF, in the microfinance space. The company has been able to scale up its portfolio consistently (5-year CAGR of 40%) despite the disruptions caused by the pandemic and it reported an AUM of Rs. 6,706 crore as on June 30, 2022 (Rs. 6,553 crore as on March 31, 2022; Rs. 4,793 crore as on March 31, 2021). As on June 30, 2022, it was present in 360 districts across 20 states through a network of 1,076 branches while catering to more than 23 lakh borrowers. Apart from microfinance, the company has a small micro, small and medium enterprise (MSME) loan portfolio (13% as on June 30, 2022).

Experienced management team; good systems and processes – AFPL's management team comprises seasoned professionals with adequate domain experience and expertise. The company has good systems and processes, which have enabled it to sustainably increase its scale of operations over the years. Apart from a loan origination team, AFPL has a separate credit team and a risk management team. The entire disbursement process is cashless, and the company is increasingly focusing on promoting cashless collections from borrowers. It has started lending under the revised regulatory framework from Q1 FY2023.

Diversified borrowing profile – The company has a diversified borrowing profile comprising funding relationships with more than 60 lenders as on June 30, 2022 and a good mix of private sector banks, public sector banks, NBFCs and FIs. The borrowing profile comprised term loans from banks (43%), non-convertible debentures (16%), term loans from NBFCs/FIs (including external commercial borrowings; 16%), subordinated debt (5%) and the securitised/assigned portfolio (20%) as on June 30, 2022. AFPL raised Rs. 3,485 crore of borrowings (on-balance sheet) in FY2022 followed by Rs. 466 crore in Q1 FY2023 and continues to maintain a healthy pipeline of funds to support its growth plans.

Credit challenges

Ability to control credit costs and improve profitability, given the deterioration in the asset quality – The gross NPAs increased to 10.0% as on March 31, 2022 from 7.3% as on March 31, 2021 and remained elevated at 9.8% as on June 30, 2022. As AFPL has created adequate provisions on such assets, the net NPAs were lower at 3.6% as on June 30, 2022 (2.9% as on March 31, 2022; 3.0% as on March 31, 2021). The 90+dpd was reported at 8.3% as on June 30, 2022 (8.0% as on March 31, 2022) compared to 6.6% as on March 31, 2021. In addition, it had an outstanding standard restructured portfolio of 6% of its AUM as on June 30, 2022, a part of which was under moratorium. Going forward, the company's ability to arrest further slippages and recover from its delinquent customers would remain a monitorable.

The profitability indicators remained subdued in FY2022 and Q1 FY2023, given the deterioration in the asset quality and the elevated credit costs. The company reported a net profit of Rs. 17 crore in FY2022 (Rs. 10 crore in Q1 FY2023), translating into

a return of 0.2% on AMA and 1.4% on average net worth, compared to Rs. 2 crore, 0.0% and 0.2%, respectively, in FY2021. AFPL's ability to control its credit costs and improve its profitability will be important from a credit perspective.

Ability to maintain prudent capitalisation profile – AFPL has a strong investor base, which has helped it scale up its operations while maintaining adequate capitalisation. The company raised Rs. 259 crore through CCPS and Rs. 150 crore through CCDs in FY2022, and Rs. 117 crore through CCPS in Q1 FY2023, which helped improve its capitalisation profile while supporting its growth plans. Consequently, the gearing (managed), adjusted for CCPS and CCDs, declined to 4.2 times as on June 30, 2022 (4.8 times as on March 31, 2022) from 5.5 times as on March 31, 2021. The capital adequacy ratio remained comfortable at 29.8% as on June 30, 2022 (29.8% as on March 31, 2022; 27.7% as on March 31, 2021). In ICRA's opinion, AFPL would require regular equity infusions to support the envisaged growth over the medium term, while maintaining a prudent capitalisation profile.

Ability to improve geographical diversification of operations – As on June 30, 2022, AFPL had a presence in 360 districts across 20 states through a network of 1,076 branches. It has been actively reducing the share of its AUM in Odisha over the years, though Odisha's share remained high at 25% as on June 30, 2022 (26% as on March 31, 2022; 31% as on March 31, 2021; 37% as on March 31, 2020). The top 3 states comprised 53% of the microfinance portfolio as on June 30, 2022 (54% as on March 31, 2022; 59% as on March 31, 2021; 61% as on March 31, 2020). There is scope for district-level diversification of the portfolio as well. Going forward, the company's ability to further diversify its operations geographically, as its scales up, will remain important from a credit perspective.

Ability to manage political, communal and other risks, given the marginal borrower profile – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Further, political and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political, climatic and operational risks, which could negatively impact AFPL's operations. AFPL's ability to onboard borrowers with a good credit history, recruit and retain employees and improve the geographical diversity of its operations would be key for managing high growth rates.

Liquidity position: Adequate

As on June 30, 2022, the company had a free cash and bank balance and liquid investments of Rs. 1,204 crore, and scheduled inflows from advances of Rs. 1,756 crore against scheduled debt repayments of Rs. 1,514 crore during July 01, 2022 to December 31, 2022. Factoring in the expected collections from advances, the liquidity profile is adequate for meeting the debt obligations in a timely manner. As per the asset-liability management (ALM) profile as on June 30, 2022, AFPL had no cumulative mismatches for at least one year, even under a stressed scenario with the collection efficiency assumed at 80%. However, given the company's growth plans, it would require additional funding to support the envisaged disbursements.

Rating sensitivities

Positive factors – ICRA could revise the outlook or upgrade the ratings if there is an improvement in AFPL's asset quality and profitability indicators with a return on average managed assets (RoMA) of more than 2.5% while maintaining a prudent capitalisation profile with a managed gearing of less than 5 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if the company witnesses further deterioration in the asset quality, which could affect the profitability. Weakening of the capitalisation profile with a managed gearing of more than 6 times or a stretched liquidity position could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

AFPL, formerly known as Annapurna Microfinance Private Limited (AMPL), is promoted by People's Forum (PF), a society registered in Odisha. PF has been engaged in various socio-economic development programmes, including microfinance, since 1990. In November 2009, PF acquired an NBFC, Gwalior Finance and Leasing Company Private Limited, which was renamed AMPL in February 2010.

The company provides microcredit for mostly income-generating activities to women borrowers using the group lending model. It also offers other products such as home and home improvement loans, consumer durable loans, corporate loans, etc. As on June 30, 2022, AFPL was catering to more than 23 lakh borrowers through a network of 1,076 branches spread across 360 districts in 20 states while managing a portfolio of Rs. 6,706 crore.

Key financial indicators (audited)

Annapurna Finance Private Limited	FY2021	FY2022	Q1 FY2023
As per	**Ind-AS**	**Ind-AS**	**Ind-AS**
Total income	977	1,153	326
Profit after tax	2	17	10
Net worth (including CCD & CCPS)	991	1,454	1,579
Gross loan portfolio	4,793	6,553	6,706
Total managed assets	6,754	8,983	8,814
Return on average managed assets	0.0%	0.2%	0.4%
Return on average net worth	0.2%	1.4%	2.6%
Managed gearing (times)	5.5	4.8	4.2
Gross NPA	7.3%	10.0%	9.8%
Net NPA	3.0%	2.9%	3.6%
Solvency (Net NPA/Net worth)	11.9%	11.0%	12.3%
CRAR	27.7%	29.8%	29.8%

Total managed assets = (Total assets + impairment allowance + assigned portfolio); Managed gearing = (On-book borrowings + securitised/assigned loan assets)/(Net worth); Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years									
	Instrument	Type	Amount Rated (Rs. crore)	Amount outstanding as of Jun-30-2022* (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021						Date & Rating in FY2020
					Sep-22-2022	Jul-22-2022	Dec-16-2021	Aug-05-2021	Dec-21-2020	Nov-16-2020	Aug-19-2020	Aug-04-2020	Jul-27-2020	May-22-2020	Sep-16-2019
1	Fund-based term loan	Long term	1,100.00	1,091.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-convertible debentures	Long term	510.30	310.18	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-convertible debentures	Long term	22.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-	-	-	-	-	-	-
4	Subordinated debt	Long term	59.00	59.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
5	Non-convertible debentures	Long term	95.00	-	[ICRA]A- (Stable)	-	-	-	-	-	-	-	-	-	-
6	Principal protected market linked debenture	Long term	35.00	-	PP-MLD [ICRA]A- (Stable)	-	-	-	-	-	-	-	-	-	-

**Source: Company*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Principal protected market linked debentures	Complex
Non-convertible debentures	Very Simple
Subordinated debt	Simple
Fund-based term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	Mar-2017 to Dec-2021	NA	Mar-22 to Nov-2024	1,100.00	[ICRA]A- (Stable)
INE515Q08044	Subordinated debt	Sep-29-2016	14.25%	Sep-29-2022	25.00	[ICRA]A- (Stable)
INE515Q08051	Subordinated debt	Mar-24-2017	13.99%	May-15-2023	34.00	[ICRA]A- (Stable)
INE515Q07384	Non-convertible debentures	Aug-30-2017	11.81%	Aug-30-2023	32.50	[ICRA]A- (Stable)
INE515Q08069	Non-convertible debentures	Mar-27-2018	13.50%	Sep-27-2023	15.00	[ICRA]A- (Stable)
INE515Q07319	Non-convertible debentures	Jul-07-2020	12.25%	Jul-07-2025	46.88	[ICRA]A- (Stable)
INE515Q07350	Non-convertible debentures	Jul-30-2020	11.50%	Jul-28-2023	25.00	[ICRA]A- (Stable)
INE515Q07368	Non-convertible debentures*	Aug-06-2020	11.50%	Feb-07-2022	100.00	[ICRA]A- (Stable)
INE515Q07392	Non-convertible debentures	Aug-31-2020	11.30%	Aug-29-2025	100.00	[ICRA]A- (Stable)
INE515Q07442	Non-convertible debentures*	Nov-17-2020	10.25%	May-18-2022	100.00	[ICRA]A- (Stable)
INE515Q07475	Non-convertible debentures	Dec-22-2020	12.00%	Dec-18-2023	27.50	[ICRA]A- (Stable)
INE515Q07558	Non-convertible debentures	Dec-20-2021	11.30%	Dec-20-2026	63.30	[ICRA]A- (Stable)
-	Non-convertible debentures – Yet to be issued	-	-	-	0.12	[ICRA]A- (Stable)
-	Non-convertible debentures – Yet to be issued	-	-	-	22.00	[ICRA]A- (Stable)
-	Non-convertible debentures – Yet to be issued	-	-	-	95.00	[ICRA]A- (Stable)
-	Principal protected market linked debenture – Yet to be issued	-	-	-	35.00	PP-MLD [ICRA]A- (Stable)

**Instrument matured; Source: Company*

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545 307
sachin.sachdeva@icraindia.com

Prateek Mittal
+91 33 7150 1132
prateek.mittal@icraindia.com

Arti Verma
+91 124 4545 313
arti.verma@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.