September 27, 2024

Annapurna Finance Private Limited: Ratings reaffirmed; ratings withdrawn for matured instruments

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt	31.00	31.00	[ICRA]A- (Stable); reaffirmed
Subordinated debt	76.18	76.18	[ICRA]A- (Stable); reaffirmed
Subordinated debt	140.00	140.00	[ICRA]A- (Stable); reaffirmed
Non-convertible debenture programme	329.26	329.26	[ICRA]A- (Stable); reaffirmed
Non-convertible debenture programme	40.76	-	[ICRA]A- (Stable); reaffirmed and withdrawn
Non-convertible debenture programme	0.12	0.12	[ICRA]A- (Stable); reaffirmed
Long-term bank facilities – Fund based	1,600.00	1,600.00	[ICRA]A- (Stable); reaffirmed
Principal protected market linked debenture	35.00	-	PP-MLD[ICRA]A- (Stable); reaffirmed and withdrawn
Total	**2,252.32**	**2,176.56**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Annapurna Finance Private Limited's (AFPL) established track record of more than two decades in the microfinance space (including microfinance lending through its parent organisation – People's Forum). The company has been able to scale up its portfolio consistently (5-year CAGR[1] of 28% till FY2024), supported by an experienced management team. AFPL continues to maintain a diversified borrowing profile with a good mix of private sector banks, public sector banks, non-banking financial companies (NBFCs) and financial institutions (FIs). However, its leverage remains elevated, given its pace of growth and moderate profitability. While the company's capital adequacy ratio of 29.4%, as of June 2024, was well above the regulatory requirement, its gearing (managed[2]) remained high at 5.2 times (reported gearing at 3.7 times). In ICRA's opinion, AFPL would require a capital infusion in the near term to support the envisaged growth, while maintaining a prudent capitalisation profile.

The ratings also consider the company's moderate, albeit improving, asset quality and earnings profile. The gross non-performing assets (NPAs), though declining, stood at 2.7% as on June 30, 2024 compared to 2.9% as on March 31, 2024 (4.0% as on March 31, 2023). ICRA notes that AFPL sold its NPAs to asset reconstruction companies (ARCs) in FY2023 and wrote off a sizeable portion of its portfolio in FY2023 and FY2024, which helped reduce the reported NPAs. Given the provisions carried by the company, the net NPAs were lower at 0.8% as on June 30, 2024. Nevertheless, it had net investments in the security receipts (SRs) of the book sold (including delinquent accounts) to the ARCs of Rs. 91 crore as on June 30, 2024. Going forward, AFPL's ability to arrest further slippages and achieve recoveries from its delinquent customers would remain monitorable.

The ratings continue to 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.

[1] Compound annual growth rate

[2] Managed gearing = On-book debt + Off-book portfolio/Net worth {including compulsorily convertible debentures (CCDs) and compulsory convertible preference shares (CCPS)}

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that AFPL will maintain a steady credit profile while expanding its scale of operations and gradually improving its earnings profile.

ICRA has reaffirmed and simultaneously withdrawn the ratings assigned to the Rs. 40.76-crore non-convertible debenture (NCD) programme and the Rs. 35-crore principal protected market linked debenture programme as the instruments have matured/been redeemed with no amount outstanding against the same. This is in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Established track record of operations – Promoted by People's Forum, a society registered in Odisha, AFPL is one of the leading NBFC-microfinance institutions (MFIs) in India by assets under management (AUM). It has an established track record of more than two decades, including microfinance lending through People's Forum, in the microfinance space. The company has been able to scale up its portfolio consistently (5-year CAGR of 28% till FY2024) despite the Covid-19 pandemic-led disruptions. It reported an AUM of Rs. 10,496 crore as on June 30, 2024 (Rs. 10,336 crore as on March 31, 2024). As on June 30, 2024, it had a presence in 428 districts across 21 states through a network of 1,536 branches, while catering to more than 29 lakh borrowers.

Diversified borrowing profile – The company's funding base is well diversified with a good mix of private sector banks, public sector banks, FIs and NBFCs. The funding profile comprised bank loans (40%), loans from FIs/NBFCs (10%), subordinated debt (9%), NCDs (7%), external commercial borrowings (ECB; 6%), and direct assignment (DA; 29%) as on June 30, 2024. It raised total funds of Rs. 7,420 crore (including DA) in FY2024 compared to Rs. 7,058 crore in FY2023. AFPL raised Rs. 1,848 crore of borrowings in Q1 FY2025 and continues to maintain a healthy pipeline of funds to support its growth plans.

Credit challenges

Moderate asset quality and earnings profile – The company's gross NPAs, though declining, stood at 2.7% as on June 30, 2024 (2.9% as on March 31, 2024; 4.0% as on March 31, 2023). ICRA notes that AFPL sold its NPAs to ARCs in FY2023 and wrote off a sizeable portion of its portfolio in FY2023 and FY2024, which helped reduce the reported NPAs. Given the provisions carried by the company, the net NPAs were lower at 0.8% as on June 30, 2024. It held net investments in the SRs of the NPAs sold to the ARCs (1.2% of portfolio) as on June 30, 2024.

The company's overall earnings profile, although improving, remains moderate on account of high operating expenses and credit costs. AFPL reported a net profit of Rs. 232 crore in FY2024, translating into a return of 2.0% on average managed assets (AMA) and 13.5% on average net worth compared to Rs. 33 crore, 0.3% and 2.1%, respectively, in FY2023. It reported a net profit of Rs. 63 crore in Q1 FY2025, translating into an annualised return of 2.1% on AMA and 13.7% on average net worth. ICRA notes that the company's net interest margins improved in FY2024, though the operating expenses increased to 5.5% of AMA in FY2024 from 4.9% in FY2023 owing to continuous branch expansion, manpower recruitment and other administrative expenses. Credit costs also remained elevated at 2.8% of AMA in FY2024, though lower than 3.6% in FY2023. AFPL's ability to control its credit costs and operating expenses and improve its profitability will be important from a credit perspective.

Elevated gearing level – The company's managed gearing remained high at 5.2 times (reported gearing at 3.7 times) as on June 30, 2024 (managed gearing at 5.3 times and reported gearing at 3.7 times as on March 31, 2024) though it declined from 5.6 times (reported gearing at 4.1 times) as on March 31, 2023 on account of the moderation in AUM growth. The capital adequacy ratio remained adequate at 29.4% as on June 30, 2024 (25.5% as on March 31, 2024; 24.7% as on March 31, 2023). AFPL has a strong investor base, which has helped it scale up its operations while maintaining adequate capitalisation. ICRA notes that the company raised Rs. 300 crore through optionally convertible debentures in Q1 FY2025. In ICRA's opinion, AFPL would require a capital infusion in the near term to support the envisaged growth, while maintaining a prudent capitalisation profile.

Political, communal, and other risks in microfinance sector, 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 its operations. AFPL's ability to onboard borrowers with a good credit history, recruit and retain employees as well as further improve the geographical diversity of its operations would be key for managing high growth rates while maintaining its credit profile.

Liquidity position: Adequate

As on June 30, 2024, the company held free cash, bank balances and liquid investments of Rs. 831 crore. This, along with the scheduled inflows from advances (excluding interest) of Rs. 4,626 crore, is adequate to meet the scheduled debt repayments (excluding interest) of Rs. 3,697 crore during July 01, 2024 to June 30, 2025 in a timely manner. As per the asset-liability management (ALM) profile as on June 30, 2024, 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 – A sustained improvement in AFPL's profitability indicators with a return on average managed assets (RoMA) of more than 2.5%, while maintaining adequate capitalisation and asset quality, could positively impact the rating.

Negative factors – Pressure on the rating could arise if there is a significant deterioration in the asset quality, thereby affecting the profitability on a sustained basis. The 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 rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

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

AFPL provides microcredit for mostly income-generating activities to women using the group lending model. It also offers other products such as individual loans to provide financial assistance to the micro, small and medium enterprise (MSME) segment, home and home improvement loans, consumer durable loans, etc. As on June 30, 2024, AFPL was catering to more than 29 lakh borrowers through a network of 1,536 branches spread across 428 districts in 21 states, while managing a portfolio of Rs. 10,496 crore.

Key financial indicators (audited)

Annapurna Finance Private Limited	FY2022	FY2023	FY2024	Q1 FY2025*
Accounting as per	**IndAS**	**IndAS**	**IndAS**	**IndAS**
Total income	1,153	1,570	2,074	551
Profit after tax	17	33	232	63
Net worth (including CCD & CCPS)	1,454	1,629	1,818	1,888
Total managed assets	8,983	11,184	12,033	12,394
Return on average managed assets	0.2%	0.3%	2.0%	2.1%
Managed gearing (times)	4.8	5.6	5.3	5.2
Gross NPA	10.0%	4.0%	2.9%	2.7%
Capital/Risk-weighted assets	29.8%	24.7%	25.5%	29.4%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; Total managed assets = (Total assets + Impairment allowance + Assigned portfolio); *Limited review*

Status of non-cooperation with previous CRA: Not applicable

Any other information: AFPL also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years										
				Date & Rating in FY2025		Date & Rating in FY2024					Date & Rating in FY2023			Date & Rating in FY2022
		Type	Amount Rated (Rs. crore)	Sep-27-2024	May-14-2024	Dec-04-2023	Nov-07-2023	Sep-28-2023	Aug-22-2023	Jul-20-2023	Mar-23-2023	Dec-14-2022 Oct-31-2022 Oct-12-2022 Sep-22-2022	Jul-22-2022	Dec-16-2021 Aug-05-2021
1	Long-term bank facilities – Fund based	Long term	1,600.00	[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	238.30	[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~~2~~	Non-convertible debentures	Long term	40.76	[ICRA]A- (Stable); withdrawn	[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)
4~~3~~	Non-convertible debentures	Long term	-	-	[ICRA]A- (Stable); withdrawn	[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~~4~~	Non-convertible debentures	Long term	-	-	-	-	-	[ICRA]A- (Stable); withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
6~~5~~	Non-convertible debentures	Long term	37.26	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-	-	-	-
7~~6~~	Non-convertible debentures	Long term	53.82	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-	-	-	-	-
8~~7~~	Subordinated debt	Long term	-	-	-	-	-	-	-	[ICRA]A- (Stable); withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)

				Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years								
				Date & Rating in FY2025		Date & Rating in FY2024					Date & Rating in FY2023			Date & Rating in FY2022
	Instrument	Type	Amount Rated (Rs. crore)	Sep-27-2024	May-14-2024	Dec-04-2023	Nov-07-2023	Sep-28-2023	Aug-22-2023	Jul-20-2023	Mar-23-2023	Dec-14-2022 Oct-31-2022 Oct-12-2022 Sep-22-2022	Jul-22-2022	Dec-16-2021 Aug-05-2021
9~~8~~	Principal protected market linked debenture	Long term	35.00	PP-MLD [ICRA]A-(Stable); withdrawn	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	-	-
10~~9~~	Subordinated debt	Long term	20.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-
11~~0~~	Subordinated debt	Long term	100.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-
12~~1~~	Subordinated debt	Long term	96.18	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-
13~~2~~	Subordinated debt	Long term	-	-	-	-	[ICRA]A-(Stable); withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-
14~~3~~	Subordinated debt	Long term	31.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-	-	-	-

**Source: Company*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Principal protected market linked debentures	Complex
Non-convertible debentures	Simple
Subordinated debt	Simple
Long-term bank facilities – Fund based	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term bank facilities – Fund based**	Mar-2020 to Mar-2023	NA	NA	1,600.00	[ICRA]A- (Stable)
INE515Q07558	**NCD**	Dec-20-2021	11.30%	Dec-20-2026	63.30	[ICRA]A- (Stable)
INE515Q07574	**NCD**	Jul-20-2022	10.85%	Jul-29-2025	22.00	[ICRA]A- (Stable)
INE515Q08192	**NCD**	Sep-21-2022	12.20%	Sep-26-2024	60.00	[ICRA]A- (Stable)
INE515Q07590	**NCD**	Oct-14-2022	10.95%	Oct-19-2027	46.00	[ICRA]A- (Stable)
INE515Q08200	**NCD**	Nov-03-2022	10.00%	Jul-08-2026	40.76	[ICRA]A- (Stable); withdrawn
INE515Q07608	**NCD**	Nov-03-2022	10.90%	Nov-04-2027	46.88	[ICRA]A- (Stable)
INE515Q08234	**NCD**	Sep-11-2023	11.90%	Sep-13-2027	37.26	[ICRA]A- (Stable)
INE515Q07624	**NCD**	Nov-02-2023	12.00%	Nov-02-2029	53.82	[ICRA]A- (Stable)
To be issued	**NCD**	-	-	-	0.12	[ICRA]A- (Stable)
INE515Q07582	**PP-MLD**	Sep-27-2022	BSE SENSEX	Oct-31-2025	35.00	PP-MLD[ICRA]A- (Stable); withdrawn
INE515Q08218	**Sub-debt**	Mar-29-2023	13.10%	Aug-29-2028	20.00	[ICRA]A- (Stable)
INE515Q08226	**Sub-debt**	Jul-31-2023	12.40%	Apr-24-2029	60.00	[ICRA]A- (Stable)
INE515Q08226	**Sub-debt**	Aug-23-2023	12.40%	Apr-24-2029	60.00	[ICRA]A- (Stable)
INE515Q08242	**Sub-debt**	Dec-12-2023	12.25%	Sep-07-2029	100.00	[ICRA]A- (Stable)
To be issued	**Sub-debt**	-	-	-	7.18	[ICRA]A- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

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

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

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

Arpit Agarwal
+91 124 4545 873
arpit.agarwal@icraindia.com

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

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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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