December 19, 2024

Annapurna Finance Private Limited: Rating reaffirmed; rating withdrawn for matured instruments and [ICRA]A- (Stable) assigned to Rs. 42.5-crore fresh NCD programme

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	223.26	223.26	[ICRA]A- (Stable); reaffirmed
Non-convertible debenture programme	106.00	-	[ICRA]A- (Stable); reaffirmed and withdrawn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
Non-convertible debenture programme	-	42.50	[ICRA]A- (Stable); assigned
Total	**2,176.56**	**2,113.06**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors 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 its 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 30.9%, as of September 2024, was well above the regulatory requirement, its gearing (managed[2]) remained high at 5.2 times (reported gearing at 3.6 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 rating also considers the company's moderate asset quality and earnings profile. Delinquencies rose in H1 FY2025 and gross non-performing assets (NPAs; on-book) remain elevated at 3.0% as on September 30, 2024 (2.9% as on March 31, 2024) despite sizable write-offs in H1 FY2025. The industry, including AFPL, is facing asset quality challenges due to borrower overleveraging, socio-political disruptions, and operational challenges, largely related to employee attrition. ICRA expects the company's credit costs to remain elevated in the near term, thereby affecting its overall profitability in FY2025. Going forward, AFPL's ability to arrest further slippages and achieve recoveries from its delinquent customers would remain monitorable.

The rating continues 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 maintaining a diversified borrowing profile.

ICRA has reaffirmed and simultaneously withdrawn the rating assigned to the Rs. 106.00-crore non-convertible debenture (NCD) 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 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. 10,367 crore as on September 30, 2024 (Rs. 10,336 crore as on March 31, 2024). As on September 30, 2024, it had a presence in 438 districts across 21 states through a network of 1,593 branches while catering to more than 28 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 (42%), subordinated debt (9%), loans from FIs/NBFCs (8%), external commercial borrowings (ECBs; 6%), NCDs (5%), and direct assignment (DA; 30%) as on September 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. 3,383 crore of borrowings in H1 FY2025 and continues to maintain a healthy pipeline of funds to support its growth plans.

Credit challenges

Moderate asset quality and earnings profile – Delinquencies rose in H1 FY2025 and gross non-performing assets (NPAs; on-book) remain elevated at 3.0% as on September 30, 2024 (2.9% as on March 31, 2024) despite sizable write-offs in H1 FY2025. Given the provisions carried by the company, the net NPAs were lower at 1.0% as on September 30, 2024. Nonetheless, it held net investments in the security receipts (SRs) of the NPAs sold to asset reconstruction companies (ARCs; 0.8% of portfolio) as on September 30, 2024. The industry, including AFPL, is facing asset quality challenges due to borrower overleveraging, socio-political disruptions, and operational challenges, largely related to employee attrition.

Given the rising asset quality stress, the company's credit costs increased to 3.0% of average managed assets (AMA) in H1 FY2025 from 2.8% in FY2024. Also, its operating efficiency deteriorated in H1 FY2025 amid muted AUM growth and higher manpower and administrative expenses. It reported a net profit of Rs. 64 crore in H1 FY2025, translating into an annualised return of 1.1% on AMA and 7.0% on average net worth (Rs. 232 crore, 2.0% and 13.5%, respectively, in FY2024). ICRA expects the credit costs to remain elevated in the near term, thereby affecting the overall profitability in FY2025. 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 3.6 times) as on September 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 30.9% as on September 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 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 September 30, 2024, the company held free cash and bank balances and liquid investments of Rs. 685 crore. This, along with the scheduled inflow from advances (excluding interest) of Rs. 4,482 crore, is adequate to meet the scheduled debt repayments (excluding interest) of Rs. 3,722 crore during October 01, 2024 to September 30, 2025 in a timely manner. As per the asset-liability management (ALM) profile as on September 30, 2024, AFPL had no cumulative mismatches for at least one year.

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 September 30, 2024, AFPL was catering to more than 28 lakh borrowers through a network of 1,593 branches spread across 438 districts in 21 states while managing a portfolio of Rs. 10,367 crore.

Key financial indicators (audited)

Annapurna Finance Private Limited	FY2022	FY2023	FY2024	H1 FY2025*
Accounting as per	IndAS	IndAS	IndAS	IndAS
Total income	1,153	1,570	2,074	1,104
Profit after tax	17	33	232	64
Net worth (including CCD & CCPS)	1,454	1,629	1,818	1,839
Total managed assets	8,983	11,184	12,033	11,965
Return on average managed assets	0.2%	0.3%	2.0%	1.1%
Managed gearing (times)	4.8	5.6	5.3	5.2
Gross NPA	10.0%	4.0%	2.9%	3.0%
Capital/Risk-weighted assets	29.8%	24.7%	25.5%	30.9%

*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 they do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure. As mentioned by statutory auditor in limited reviewed financials for H1 FY2025, AFPL was in breach of covenants pertaining to eight debt funding agreements equivalent to Rs. 320 crore of borrowings outstanding as on September 30, 2024. According to the management, the company repaid one of the facilities in October 2024, as per the original repayment schedule, while it has received the requisite waivers for the remaining seven funding agreements.

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years							
	Type	Amount rated (Rs. crore)	Dec 19, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long-term bank facilities – Fund based	Long term	1,600.00	[ICRA]A- (Stable)	14-May-2024	[ICRA]A- (Stable)	20-Jul-2023	[ICRA]A- (Stable)	22-Jul-2022	[ICRA]A- (Stable)	5-Aug-2021	[ICRA]A- (Stable)
				27-Sep-2024	[ICRA]A- (Stable)	22-Aug-2023	[ICRA]A- (Stable)	22-Sep-2022	[ICRA]A- (Stable)	16-Dec-2021	[ICRA]A- (Stable)
						28-Sep-2023	[ICRA]A- (Stable)	12-Oct-2022	[ICRA]A- (Stable)		
						7-Nov-2023	[ICRA]A- (Stable)	31-Oct-2022	[ICRA]A- (Stable)		
						4-Dec-2023	[ICRA]A- (Stable)	14-Dec-2022	[ICRA]A- (Stable)		
								23-Mar-2023	[ICRA]A- (Stable)		
Non-convertible debentures	Long term	223.38	[ICRA]A- (Stable)	14-May-2024	[ICRA]A- (Stable)	20-Jul-2023	[ICRA]A- (Stable)	22-Jul-2022	[ICRA]A- (Stable)	5-Aug-2021	[ICRA]A- (Stable)
				27-Sep-2024	[ICRA]A- (Stable)	22-Aug-2023	[ICRA]A- (Stable)	22-Sep-2022	[ICRA]A- (Stable)	16-Dec-2021	[ICRA]A- (Stable)
						28-Sep-2023	[ICRA]A- (Stable)	12-Oct-2022	[ICRA]A- (Stable)		
						7-Nov-2023	[ICRA]A- (Stable)	31-Oct-2022	[ICRA]A- (Stable)		
						4-Dec-2023	[ICRA]A- (Stable)	14-Dec-2022	[ICRA]A- (Stable)		
								23-Mar-2023	[ICRA]A- (Stable)		

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years							
	Type	Amount rated (Rs. crore)	Dec 19, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Non-convertible debentures	Long term	14.92	[ICRA]A-(Stable); withdrawn								
Non-convertible debentures	Long term	37.26	[ICRA]A-(Stable); withdrawn	14-May-2024	[ICRA]A-(Stable)	28-Sep-2023	[ICRA]A-(Stable)				
				27-Sep-2024	[ICRA]A-(Stable)	7-Nov-2023	[ICRA]A-(Stable)				
						4-Dec-2023	[ICRA]A-(Stable)				
Non-convertible debentures	Long term	53.82	[ICRA]A-(Stable); withdrawn	14-May-2024	[ICRA]A-(Stable)	7-Nov-2023	[ICRA]A-(Stable)				
				27-Sep-2024	[ICRA]A-(Stable)	4-Dec-2023	[ICRA]A-(Stable)				
Subordinated debt	Long term	20.00	[ICRA]A-(Stable)	14-May-2024	[ICRA]A-(Stable)	20-Jul-2023	[ICRA]A-(Stable)	23-Mar-2023	[ICRA]A-(Stable)		
				27-Sep-2024	[ICRA]A-(Stable)	22-Aug-2023	[ICRA]A-(Stable)				
						28-Sep-2023	[ICRA]A-(Stable)				
						7-Nov-2023	[ICRA]A-(Stable)				
						4-Dec-2023	[ICRA]A-(Stable)				
Subordinated debt	Long term	100.00	[ICRA]A-(Stable)	14-May-2024	[ICRA]A-(Stable)	20-Jul-2023	[ICRA]A-(Stable)				

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years							
	Type	Amount rated (Rs. crore)	Dec 19, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
				27-Sep-2024	[ICRA]A-(Stable)	22-Aug-2023	[ICRA]A-(Stable)				
						28-Sep-2023	[ICRA]A-(Stable)				
						7-Nov-2023	[ICRA]A-(Stable)				
						4-Dec-2023	[ICRA]A-(Stable)				
Subordinated debt	Long term	96.18	[ICRA]A-(Stable)	14-May-2024	[ICRA]A-(Stable)	22-Aug-2023	[ICRA]A-(Stable)				
				27-Sep-2024	[ICRA]A-(Stable)	28-Sep-2023	[ICRA]A-(Stable)				
						7-Nov-2023	[ICRA]A-(Stable)				
						4-Dec-2023	[ICRA]A-(Stable)				
Subordinated debt	Long term	31.00	[ICRA]A-(Stable)	14-May-2024	[ICRA]A-(Stable)	4-Dec-2023	[ICRA]A-(Stable)				
				27-Sep-2024	[ICRA]A-(Stable)						

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
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); withdrawn
INE515Q07590	**NCD**	Oct-14-2022	10.95%	Oct-19-2027	46.00	[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**	-	-	-	42.62	[ICRA]A- (Stable)
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

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