December 14, 2022

Annapurna Finance Private Limited: Ratings reaffirmed; Ratings reaffirmed and simultaneously withdrawn for Rs. 200-crore NCD programme and Rs. 25-crore subordinated debt programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	560.94	560.94	[ICRA]A- (Stable); reaffirmed
Principal protected market linked debenture	35.00	35.00	PP-MLD [ICRA]A- (Stable); reaffirmed
Non-convertible debentures	200.00	-	[ICRA]A- (Stable); reaffirmed and simultaneously withdrawn
Subordinated debt	34.00	34.00	[ICRA]A- (Stable); reaffirmed
Subordinated debt	25.00	-	[ICRA]A- (Stable); reaffirmed and simultaneously withdrawn
Long-term bank facilities – Fund-based term loan	1,100.00	1,100.00	[ICRA]A- (Stable); reaffirmed
Total	**1,954.94**	**1,729.94**	

**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 People's Forum, AFPL's parent organisation), its experienced management team and good systems and processes. The company has been able to scale up its portfolio consistently (five-year CAGR[1] of 40%) despite the disruptions caused by the Covid-19 pandemic. 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 50 lenders as on September 30, 2022 and a good mix of private sector banks, public sector banks, non-banking financial companies (NBFCs) and financial institutions (FIs). The company has been able to regularly raise capital, which helped in maintaining an adequate capitalisation profile, while supporting its growth plans. In ICRA's opinion, AFPL would require capital infusion 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 due to 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. However, the same declined to 8.0% as on September 30, 2022 primarily on account of write offs done in H1 FY2023. As AFPL has created adequate provisions on the stressed assets, the net NPAs were lower at 3.1% as on September 30, 2022. 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 H1 FY2023, given the deterioration in the asset quality and the elevated credit costs. The company reported a net profit of Rs. 31 crore in H1 FY2023, translating into a return of 0.6% on average managed assets (AMA) and 4.0% on average net worth, compared to Rs. 17 crore, 0.2% and 1.4%, respectively, in FY2022.

[1] *Compound annual growth rate*

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.

ICRA notes that 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 ratings would face pressure. Nevertheless, ICRA notes that AFPL has been able to raise fresh funds, despite covenant breaches in the last 1-2 years. The management has guided that waivers from majority of lenders/ investors have been received for such breaches.

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.

ICRA has reaffirmed the rating for the Rs. 200-crore NCD programme and Rs. 25-crore subordinated debt programme and simultaneously withdrawn as the instruments have been repaid by the company and there is no amount outstanding against the same. The rating has been withdrawn 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 largest NBFC-microfinance institutions (NBFC-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 40%) despite the pandemic-led disruptions and it reported an AUM of Rs. 7,323 crore as on September 30, 2022 (Rs. 6,553 crore as on March 31, 2022; Rs. 4,793 crore as on March 31, 2021). As on September 30, 2022, it was present in 376 districts across 20 states through a network of 1,120 branches, while catering to more than 23.4 lakh borrowers.

Apart from microfinance, the company has a small micro, small and medium enterprise (MSME) loan portfolio (14% as on September 30, 2022). Under MSME, around 25-30% of portfolio is unsecured, while the remaining is secured by self-occupied residential property and self-occupied commercial property.

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's funding base is well diversified with a good mix of private banks, public sector banks, FIs and NBFCs. As on September 30, 2022, AFPL had funding relationships with more than 50 lenders. The funding profile is diversified and comprised bank loans (43%), FIs/NBFCs (9%), NCDs (16%), ECB (5%), subordinated debt (4%) and DA (22%) as on September 30, 2022. It raised Rs. 1,951 crore of borrowings (on balance sheet) in H1 FY2023 and Rs. 1,039 crore via DA transactions 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 asset quality – The gross NPAs increased to 10.0% as on March 31, 2022 from 7.3% as on March 31, 2021. However, the same declined to 8.0% as on September 30, 2022 primarily on account of write offs done in H1 FY2023. As AFPL has created adequate provisions on such assets, the net NPAs were lower at 3.1% as on September 30, 2022 (2.9% as on March 31, 2022; 3.0% as on March 31, 2021). The 90+ days past due (dpd; on AUM basis) was reported at 6.7% as on September 30, 2022 (8.0% as on March 31, 2022) against 6.6% as on March 31, 2021. In addition, it had an outstanding standard restructured portfolio of 3.8% of its AUM as on September 30, 2022, which has come out of moratorium from July 2022 onwards. 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 H1 FY2023, given the deterioration in the asset quality and the elevated credit costs. The company reported a net profit of Rs. 31 crore in H1 FY2023, translating into a return of 0.6% on AMA and 4.0% on average net worth, compared to Rs. 17 crore, 0.2% and 1.4%, respectively, in FY2022. ICRA expects the credit cost to remain elevated and hence the profitability is likely to remain moderate in FY2023, and any meaningful improvement in the same to reflect from FY2024. AFPL's ability to control its credit costs and improve its profitability will be important from the credit perspective.

Ability to maintain prudent capitalisation profile – AFPL has a strong investor base, which has helped to scale up its operations while maintaining adequate capitalisation. 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. 117.3 crore through CCPS in H1 FY2023, which helped in improving its capitalisation profile, while supporting its growth plans. Consequently, the gearing (managed[2]), 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. However, with growth in AUM and consequent debt funding, managed gearing increased to 4.9 times as on September 30, 2022.

The capital adequacy ratio remained adequate at 27.6% as on September 30, 2022 (29.8% as on March 31, 2022; 27.7% as on March 31, 2021). In ICRA's opinion, AFPL would require capital infusions to support the envisaged growth over the medium term, while maintaining a prudent capitalisation profile.

Ability to improve geographical diversification of portfolio – As on September 30, 2022, AFPL had presence in 376 districts across 20 states through a network of 1,120 branches. It has been actively reducing the share of its AUM in Odisha over the years, though its share remained high at 22% 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 52% of the microfinance portfolio as on September 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 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 the key for managing high growth rates.

Liquidity position: Adequate

As on September 30, 2022, the company had a free cash and bank balance as well as liquid investments of Rs. 1,356 crore, and scheduled inflows from advances (excl. interest) of Rs. 1,883 crore against scheduled debt repayments (excl. interest) of Rs. 1,653 crore during October 01, 2022 to March 31, 2023. 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 September 30, 2022, AFPL had no cumulative mismatches for at least one year, even under a stressed scenario with the

[2] *Managed gearing = on-book debt + off-book portfolio / net worth*

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 ICRA's policy on withdrawal of credit ratings
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, a society registered in Odisha. People's Forum has been engaged in various socio-economic development programmes, including microfinance, since 1990. In November 2009, People's Forum 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 September 30, 2022, AFPL was catering to more than 23 lakh borrowers through a network of 1,120 branches spread across 376 districts in 20 states, while managing a portfolio of Rs. 7,323 crore.

Key financial indicators (audited)

Company Name	FY2021	FY2022	H1 FY2023*
Accounting as per	**Ind AS**	**Ind AS**	**Ind AS**
Total income	977	1,153	732
Profit after tax	2	17	31
Net worth (including CCD & CCPS)	991	1,454	1,592
Gross AUM	4,793	6,553	7,323
Total managed assets	6,754	8,983	9,978
Return on average managed assets	0.0%	0.2%	0.6%
Return on average net worth	0.2%	1.4%	4.0%
Managed gearing (times)	5.5	4.8	4.9
Gross NPA	7.3%	10.0%	8.0%
Net NPA	3.0%	2.9%	3.1%
Solvency (Net NPA/Net worth)	11.9%	11.0%	12.5%
CRAR	27.7%	29.8%	27.6%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

Total managed assets = (Total assets + impairment allowance + assigned portfolio); Managed gearing = (On-book borrowings + securitised/assigned loan assets)/(Net worth)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)								Chronology of Rating History for the Past 3 Years								
		Type	Amount Rated (Rs. crore)	Amount outstanding as on Nov-30-2022* (Rs. crore)	Date & Rating in FY2023					Date & Rating in FY2022		Date & Rating in FY2021						Date & Rating in FY2020
					Dec-14-2022	Oct-31-2022	Oct-12-2022	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)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	**Non-convertible debentures**	Long term	310.30	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)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	**Non-convertible debentures**	Long term	22.00	22.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-	-	-	-	-
4	**Subordinated debt**	Long term	34.00	34.00	[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)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
5	**Non-convertible debentures**	Long term	95.00	95.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-	-	-	-	-	-
6	**Principal protected market linked debenture**	Long term	35.00	35.00	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	-	-	-	-	-	-	-	-	-	-
7	**Non-convertible debentures**	Long term	46.00	46.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-	-	-	-	-	-	-
8	**Non-convertible debentures**	Long term	46.88	46.88	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-	-	-	-	-	-	-	-
9	**Non-convertible debentures**	Long term	40.76	40.76	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-	-	-	-	-	-	-	-

	Instrument		Current Rating (FY2023)							Chronology of Rating History for the Past 3 Years									
		Type	Amount Rated (Rs. crore)	Amount outstanding as on Nov-30-2022* (Rs. crore)	Date & Rating in FY2023					Date & Rating in FY2022		Date & Rating in FY2021						Date & Rating in FY2020
					Dec-14-2022	Oct-31-2022	Oct-12-2022	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
10	Subordinated debt	Long term	25.00	-	[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)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
11	Non-convertible debentures	Long term	200.00	-	[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)	[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	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	Mar-2018 to Oct-2022	Not available	Not available	1,100.00	[ICRA]A- (Stable)
INE515Q08044	**Sub-debt**	Sep-29-2016	14.25%	Sep-29-2022	25.00	[ICRA]A- (Stable); withdrawn
INE515Q08051	**Sub-debt**	Mar-24-2017	13.99%	May-15-2023	34.00	[ICRA]A- (Stable)
INE515Q07384	**NCD**	Aug-30-2017	11.81%	Aug-30-2023	32.50	[ICRA]A- (Stable)
INE515Q08069	**NCD**	Mar-27-2018	13.50%	Sep-27-2023	15.00	[ICRA]A- (Stable)
INE515Q07319	**NCD**	Jul-07-2020	12.25%	Jul-07-2025	46.88	[ICRA]A- (Stable)
INE515Q07350	**NCD**	Jul-30-2020	11.50%	Jul-28-2023	25.00	[ICRA]A- (Stable)
INE515Q07368	**NCD**	Aug-06-2020	11.50%	Feb-07-2022	100.00	[ICRA]A- (Stable); withdrawn
INE515Q07392	**NCD**	Aug-31-2020	11.30%	Aug-29-2025	100.00	[ICRA]A- (Stable)
INE515Q07442	**NCD**	Nov-17-2020	10.25%	May-18-2022	100.00	[ICRA]A- (Stable); withdrawn
INE515Q07475	**NCD**	Dec-22-2020	12.00%	Dec-18-2023	27.50	[ICRA]A- (Stable)
INE515Q07558	**NCD**	Dec-20-2021	11.30%	Dec-20-2026	63.30	[ICRA]A- (Stable)
To be issued	**NCD**	-	-	-	0.12	[ICRA]A- (Stable)
INE515Q07574	**NCD**	Jul-20-2022	10.85%	Jul-29-2025	22.00	[ICRA]A- (Stable)
INE515Q08184	**NCD**	Sep-21-2022	11.25%	Sep-26-2024	35.00	[ICRA]A- (Stable)
INE515Q08192	**NCD**	Sep-21-2022	12.20%	Sep-27-2023	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)
INE515Q07608	**NCD**	Nov-03-2022	10.90%	Nov-04-2027	46.88	[ICRA]A- (Stable)
INE515Q07582	**PP-MLD**	Sep-27-2022	BSE SENSEX	Oct-31-2025	35.00	PP-MLD [ICRA]A- (Stable)

Source: Company

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

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