March 23, 2023

Annapurna Finance Private Limited: Rating assigned/reaffirmed; rating amount enhanced

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
Subordinated debt	34.00	34.00	[ICRA]A- (Stable); reaffirmed
Subordinated debt	-	20.00	[ICRA]A- (Stable); assigned
Long-term bank facilities – Fund based^	1,100.00	1,600.00	[ICRA]A- (Stable); assigned/reaffirmed
Total	**1,729.94**	**2,249.94**	

**Instrument details are provided in Annexure I; ^earlier rated as Long-term bank facilities – Fund based term loan*

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 December 31, 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 6.9% as on December 31, 2022 primarily on account of write-offs in 9M FY2023. As AFPL has created adequate provisions on the stressed assets, the net NPAs were lower at 2.6% as on December 31, 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 9M FY2023, given the deterioration in the asset quality and the elevated credit costs. The company reported a net profit of Rs. 33 crore in 9M FY2023, translating into a return of 0.5% on average managed assets (AMA) and 2.9% on the average net worth, compared to Rs. 17 crore, 0.2% and 1.4%, respectively, in FY2022.

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*

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 the majority of the 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.

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 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 assets under management (AUM) of Rs. 7,964 crore as on December 31, 2022 (Rs. 6,553 crore as on March 31, 2022; Rs. 4,793 crore as on March 31, 2021). As on December 31, 2022, it was present in 383 districts across 20 states/Union Territories (UTs) through a network of 1,160 branches, while catering to more than 24 lakh borrowers.

Apart from microfinance, the company has a small micro, small and medium enterprise (MSME) loan portfolio (14% as on December 31, 2022). Around 25-30% of the MSME portfolio is unsecured, while the rest is secured by self-occupied residential and commercial properties.

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 December 31, 2022, AFPL had funding relationships with more than 50 lenders. The funding profile is diversified and comprised bank loans (43%), FIs/NBFCs (9%), non-convertible debentures (NCDs; 16%), external commercial borrowings (ECB; 5%), subordinated debt (4%) and direct assignment (DA; 23%) as on December 31, 2022. It raised Rs. 3,654 crore of borrowings (on-balance sheet) in 11M FY2023 and Rs. 2,049 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 the 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 6.9% as on December 31, 2022 primarily on account of the write-offs in 9M FY2023. As AFPL has created adequate provisions on such assets, the net NPAs were lower at 2.6% as on December 31, 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 5.7% 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 2.6% of its portfolio as on December 31, 2022, which came out of moratorium from July 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 9M FY2023, given the deterioration in the asset quality and the elevated credit costs. AFPL reported a net profit of Rs. 33 crore in 9M FY2023, translating into a return of 0.5% on AMA and 2.9% on the 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. Any meaningful improvement in the same is expected to be reflected from FY2024. 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 compulsorily convertible preference shares (CCPS) and Rs. 150 crore through compulsorily convertible debentures (CCDs) in FY2022, and Rs. 117 crore through CCPS in 9M FY2023, which helped improve its capitalisation profile while supporting its growth plans. Consequently, the gearing (managed[2]), declined to 5.0 times as on December 31, 2022 (4.8 times as on March 31, 2022) from 5.5 times as on March 31, 2021.

The capital adequacy ratio remained adequate at 26.5% as on December 31, 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 December 31, 2022, AFPL had a presence in 383 districts across 20 states/UTs through a network of 1,160 branches. It has been actively reducing the share of its AUM in Odisha over the years and the same was reported at 21% as on December 31, 2022 (26% as on March 31, 2022; 31% as on March 31, 2021). The top 3 states comprised 52% of the microfinance portfolio as on December 31, 2022 (54% as on March 31, 2022; 59% as on March 31, 2021). There is scope for district-level diversification of the portfolio as well as the top 10 and top 20 districts comprised 16% and 25% of the company's AUM, respectively, as on December 31, 2022. Going forward, AFPL'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 December 31, 2022, the company had a free cash and bank balance as well as liquid investments of Rs. 1,131 crore and scheduled inflows from advances (excluding interest) of Rs. 1,820 crore against scheduled debt repayments (excluding interest) of Rs. 1,890 crore during January 1, 2023 to June 30, 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 December 31, 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.

[2] *Managed gearing = on-book debt + off-book portfolio / net worth (including CCDs and CCPS)*

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

Annapurna Finance Private Limited (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 December 31, 2022, AFPL was catering to more than 24 lakh borrowers through a network of 1,160 branches spread across 383 districts in 20 states/UTs, while managing a portfolio of Rs. 7,964 crore.

Key financial indicators (audited)

Annapurna Finance Private Limited	FY2021	FY2022	9M FY2023*
Accounting as per	**IndAS**	**IndAS**	**IndAS**
Total income	977	1,153	1,139
Profit after tax	2	17	33
Net worth (including CCD & CCPS)	991	1,454	1,610
Gross AUM	4,793	6,553	7,964
Total managed assets	6,754	8,983	10,179
Return on average managed assets	0.0%	0.2%	0.5%
Return on average net worth	0.2%	1.4%	2.9%
Managed gearing (times)	5.5	4.8	5.0
Gross NPA	7.3%	10.0%	6.9%
Net NPA	3.0%	2.9%	2.6%
Solvency (Net NPA/Net worth)	11.9%	11.0%	9.5%
Capital / Risk-weighted assets	27.7%	29.8%	26.5%

*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)*

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 Feb-28-2023* (Rs. crore)	Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar-23-2023	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	Long-term bank facilities – Fund based^	Long term	1,600.00	1,522.27	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Non-convertible debentures	Long term	560.94	560.82	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	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)
4	Principal protected market linked debenture	Long term	35.00	35.00	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	-	-	-	-
5	Subordinated debt	Long term	20.00	0.00	[ICRA]A-(Stable)	-	-	-	-	-

**Source: Company; ^earlier rated as Long-term bank facilities – Fund based term loan*

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-2018 to Jan-2023	Not available	Not available	1,600.00	[ICRA]A- (Stable)
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)
INE515Q07392	NCD	Aug-31-2020	11.30%	Aug-29-2025	100.00	[ICRA]A- (Stable)
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)
NA	Sub-debt – Yet to be issued	NA	NA	NA	20.00	[ICRA]A-(Stable)

Source: Company; ^earlier rated as Long-term bank facilities – Fund based term loan

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

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