August 22, 2023

Annapurna Finance Private Limited: [ICRA]A- (Stable) assigned to Rs. 100-crore subordinated debt

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt	-	100.00	[ICRA]A- (Stable); assigned
Subordinated debt	120.00	120.00	[ICRA]A- (Stable); outstanding
Non-convertible debentures	560.94	560.94	[ICRA]A- (Stable); outstanding
Principal protected market linked debenture	35.00	35.00	PP-MLD[ICRA]A- (Stable); Outstanding
Long-term bank facilities – Fund based	1,600.00	1,600.00	[ICRA]A- (Stable); outstanding
Total	**2,315.94**	**2,415.94**	

**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). The company has been able to scale up its portfolio consistently (5-year CAGR[1] of 35% till FY2023) despite the disruptions caused by the Covid-19 pandemic. The increase in the scale of operations has been aided by 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, 2023 and a good mix of private sector banks, public sector banks, non-banking financial companies (NBFCs) and financial institutions (FIs). However, its leverage has been increasing, given its pace of growth and subdued profitability. 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 are constrained by the moderate asset quality and subdued profitability indicators due to the impact of the disruptions caused by the pandemic. The gross non-performing assets (NPAs), though declining, remains moderate at 3.0% as on June 30, 2023 compared to 4.0% as on March 31, 2023 (10.0% as on March 31, 2022). The company sold its NPAs to asset reconstruction companies (ARCs) in FY2023 and wrote off a sizeable portion of its portfolio in FY2023 and Q1 FY2024, which helped reduce the reported NPAs. Given the provisions carried by the company, the net NPAs were lower at 1.0% as on June 30, 2023. Nevertheless, it holds investments in the security receipts (SRs) of the NPAs sold to the ARCs (1.3% of portfolio) and had a standard restructured portfolio outstanding (0.1% of portfolio) as on June 30, 2023. Going forward, AFPL's ability to arrest further slippages and recover from its delinquent customers would remain key for improving its profitability.

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 receive 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.

[1] *Compound annual growth rate*

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 improving its profitability from the recent lows, aided by its experienced management team, good systems and processes and diversified borrowing profile.

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 (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 35% till FY2023) despite the pandemic-led disruptions and it reported an AUM of Rs. 8,996 crore as on June 30, 2023 (Rs. 8,749 crore as on March 31, 2023; Rs. 6,553 crore as on March 31, 2022). 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. As on June 30, 2023, it was present in 402 districts across 20 states through a network of 1,237 branches, while catering to more than 25 lakh borrowers.

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 June 30, 2023, AFPL had funding relationships with more than 60 lenders. The funding profile is diversified and comprised bank loans (39%), FIs/NBFCs (15%), non-convertible debentures (NCDs; 10%), external commercial borrowings (ECB; 7%), subordinated debt (3%) and direct assignment (DA; 26%) as on June 30, 2023. It raised Rs. 4,331 crore of borrowings (on-balance sheet) and Rs. 2,727 crore via DA transactions in FY2023. In Q1 FY2024, the company raised Rs. 1,771 crore of borrowings and continues to maintain a healthy pipeline of funds to support its growth plans.

Credit challenges

Subdued profitability owing to elevated credit costs – The company's net interest margin improved to 8.7% of average managed assets (AMA) in FY2023 from 7.4% in FY2022 as it increased its lending rates in light of the revised microfinance regulations. Nevertheless, the profitability indicators remained subdued in FY2022 and FY2023, given the deterioration in the asset quality and the elevated credit costs. The credit costs stood at 3.6% of AMA in FY2023 compared to 2.4% in FY2022. Further, with continuous branch expansion and the hiring of employees, the operating expenses increased to 4.9% of AMA in FY2023 from 4.7% in FY2022. AFPL reported a net profit of Rs. 33 crore in FY2023, translating into a return of 0.3% on AMA and 2.1% on average net worth compared to Rs. 17 crore, 0.2% and 1.4%, respectively, in FY2022. It reported a net profit of Rs. 64 crore in Q1 FY2024, translating into an annualised return of 2.3% on AMA and 15.7% on average net worth. AFPL's ability to control its credit costs and improve its profitability will be important from a credit perspective.

Increasing leverage, given high pace of growth – 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 FY2023, which helped support its capitalisation profile to some extent despite the subdued profitability and pace of growth. The managed gearing[2] increased to 5.6 times (reported gearing at 4.1 times) as on June 30, 2023 (managed gearing at 5.6 times and reported gearing at 4.1 times as on March 31, 2023) from 4.8 times (reported gearing at 3.8 times) as on March 31, 2022. The capital adequacy ratio remained adequate at 23.5% as on June 30, 2023 (24.7% as on March 31, 2023; 29.8% as on March 31, 2022). In ICRA's opinion, AFPL would require capital infusions in the near term to support the envisaged growth, while maintaining a prudent capitalisation profile.

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[2] *Managed gearing = On-book debt + Off-book portfolio / Net worth (including CCDs and CCPS)*

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 June 30, 2023, the company had a free cash and bank balance as well as liquid investments of Rs. 1,136 crore and scheduled inflows from advances (excluding interest) of Rs. 3,752 crore against scheduled debt repayments (excluding interest) of Rs. 3,349 crore during July 01, 2023 to June 30, 2024. 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, 2023, 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 its asset quality, which could affect its profitability. 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 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.

AFPL 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, 2023, AFPL was catering to more than 25 lakh borrowers through a network of 1,237 branches spread across 402 districts in 20 states, while managing a portfolio of Rs. 8,996 crore.

Key financial indicators (audited)

Annapurna Finance Private Limited	FY2021	FY2022	FY2023	Q1 FY2024
Accounting as per	IndAS	IndAS	IndAS	IndAS
Total income	977	1,153	1,570	487
Profit after tax	2	17	33	64
Net worth (including CCD & CCPS)	991	1,454	1,629	1,644
Gross AUM	4,793	6,553	8,749	8,996
Total managed assets	6,754	8,983	11,184	11,351
Return on average managed assets	0.0%	0.2%	0.3%	2.3%
Return on average net worth	0.2%	1.4%	2.1%	15.7%
Managed gearing (times)	5.5	4.8	5.6	5.6
Reported gearing (times)	4.7	3.8	4.1	4.1
Gross NPA	7.3%	10.0%	4.0%	3.0%
Net NPA	3.0%	2.9%	1.5%	1.0%
Capital / Risk-weighted assets	27.7%	29.8%	24.7%	23.5%

Source: Company, ICRA Research; 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 (FY2024)					Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Jun-30-2023* (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021
					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	Dec-21-2020 Nov-16-2020 Aug-19-2020 Aug-04-2020 Jul-27-2020 May-22-2020
1	Long-term bank facilities – Fund based	Long term	1,600.00	1,565.81	[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	560.94	560.82	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	Subordinated debt	Long term	-	-	-	[ICRA]A-(Stable); withdrawn	[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)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	-	-	-
5	Subordinated debt	Long term	20.00	20.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-
6	Subordinated debt	Long term	100.00	0.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-
7	Subordinated debt	Long term	100.00	0.00	[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-2018 to Mar-2023	Not available	Not available	1,600.00	[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-27-2023	35.00	[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)
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)
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	100.00	[ICRA]A- (Stable)
NA	Sub-debt – Yet to be issued	NA	NA	NA	100.00	[ICRA]A- (Stable)

**Redeemed on July 07, 2023; ^Instrument matured and redeemed; 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

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

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