

August 05, 2021

Annapurna Finance Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines	1,100.00	1,100.00	[ICRA]A-(Stable); rating reaffirmed
Subordinated debt programme	84.00	84.00	[ICRA]A-(Stable); rating reaffirmed
Subordinated debt programme	5.00	0.00	[ICRA]A-(Stable); rating reaffirmed and simultaneously withdrawn
NCD programme	493.74	493.74	[ICRA]A-(Stable); rating reaffirmed
NCD programme	62.00	0.00	[ICRA]A-(Stable); rating reaffirmed and simultaneously withdrawn
Total	1,744.74	1,677.74	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to factor in the established track record of Annapurna Finance Private Limited (AFPL) in the microfinance industry under the leadership of its promoter People's Forum for more than two decades. The company has been able to consistently grow its book over the years on the back of its experienced management team. Further, AFPL's strong internal audit structure and risk framework, and good systems and processes help it in growing its operations while managing the risks effectively. This has helped the company become one of the largest microfinance institutions (MFIs) in India based on AUM. As on March 31, 2021, the company's AUM stood at Rs. 4,793 crore

Further, its well-diversified borrowing profile along with adequate liquidity provides comfort. The funding profile comprised bank loans (30%), financial institutions (FIs)/non-banking financial companies (NBFCs; 14%), debentures (32%), external commercial borrowings (9%), securitisation (1%) and off-book borrowings (14%) as on March 31, 2021. ICRA also notes the equity infusion of Rs. 228.6 crore in the company in FY2021, which improved the gearing to 4.79 times as on March 31, 2021 from 5.11 times as on March 31, 2020. ICRA notes the company's plan to raise additional capital in FY2022 to further support its capitalisation profile and envisage its growth plans, however, the same is critical from rating perspective and remains monitorable.

The rating also factors in the deterioration in AFPL's asset quality metrics in FY2021 with a resultant impact on its profitability profile and the expectation of continuing stress on its asset quality due to the second wave of the Covid-19 pandemic. However, the improvement in collection efficiency¹ in last two months provide comfort. Given the disruptions caused by the pandemic, which has severely impacted the livelihood and cash flows of the borrowers, the microfinance industry, including AFPL, witnessed pressure on the asset quality metrics. The company reported 90+ days past due (dpd) of 6.59% as on March 31, 2021 compared to 1.27% as on March 31, 2020. This led to increased provisioning costs in FY2021, thereby affecting its profitability. Additionally, AFPL has restructured ~7% of its portfolio in FY2021, the performance of which is yet to be established as economic activities were once again disrupted by the second wave of the pandemic in Q1 FY2022. The collection efficiency declined to 78.73% in May 2021 from 91.89% in March 2021. Nonetheless, it picked up again to 88% in June 2021 and further to 92% in July 2021. However, the full recovery of the collection efficiency may take some time and would remain monitorable. Moreover, any further surge in covid-19 infections could impact the operations and company's ability to navigate

¹ Collection Efficiency = Current Collections/Current Demand

the same would be critical. ICRA maintains cautious stance and expects the asset quality pressures to persist in the near to medium term, which could possibly suppress the profitability indicators for FY2022. AFPL's ability to improve its asset quality and profitability and control the credit costs would remain a key rating monitorable.

The rating also factors 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, though the same has improved with the top 3 states accounting for nearly 59% of the assets under management (AUM) as on March 31, 2021.

Key rating drivers and their description

Credit strengths

Established track record in MFI industry – Incorporated in 1986 and under the leadership of its promoter – People's Forum, AFPL has been engaged in microfinance since 1990. With diverse experience of over two decades, the company has grown its portfolio and became one of the largest MFIs in India based on AUM after commencing its business as an MFI in 2009. As on March 31, 2021, AFPL was managing gross AUM of Rs 4,793 crore through a network of 870 branches across 320 districts in 18 states and catering to ~18.5 lakh borrowers.

Experienced management, good system and processes – AFPL commenced its lending business in the MFI space in 2009 and was able to scale up its operations over the years with support from its experienced management team, strong internal audit structure and risk framework, and good systems and processes. The company has a separate credit team and risk management team apart from a loan origination team. It has signed and is adhering to the code for responsible lending launched by the self-regulatory organisations of the industry.

Diversified borrowing profile with adequate liquidity support – The company's funding base is well diversified with a good mix of private banks, public sector banks, FIs and NBFCs constituting more than 60 lenders as on March 31, 2021. The funding profile comprises bank loans (30%), FIs/NBFCs (14%), debentures (32%), external commercial borrowings (9%), securitisation (1%) and off-book borrowings (14%) as on March 31, 2021. In terms of sanctions, the company had raised Rs. 3,330 crore of debt funds in FY2020 and Rs. 3,123 crore in FY2021. It is carrying high on-balance sheet liquidity in the form of cash and bank balances of Rs. 1,341 crore as on May 31, 2021.

Credit challenges

Deterioration in asset quality indicators and ability to improve collection efficiency – The microfinance industry has faced many challenges following the spread of the pandemic throughout the country. These include the continuity of business operations on the field and the adverse impact on the asset quality as the borrowers' cash flows and economic activity have slowed down. Given the challenges, AFPL also witnessed a rise in its delinquencies as it reported a 90+dpd of 6.59% as on March 31, 2021 compared to 1.27% as on March 31, 2020. Moreover, it had restructured ~7% of its portfolio as on March 31, 2021, the performance of which is yet to be established owing to the stress induced by the second wave of the pandemic in Q1 FY2022.

The company had been witnessing an improvement in its collection efficiency in Q4 FY2021. However, the surge in Covid-19 infections in the last two-three months led to several states/Union Territories (UTs) imposing lockdowns or placing significant restrictions on gatherings and the movement of people, resulting in the disruption of economic activities and impacting the field operations as well as collections for the industry. For AFPL, while the collection efficiency had been improving in Q4 FY2021, it declined to 78.73% in May 2021 from 91.89% in March 2021. Nonetheless, it picked up again to 88% in June 2021 and further to 92% in July 2021. However, the full recovery of the collection efficiency may take some time. AFPL's ability to navigate through the adversity and manage the impact on its business growth, client retention and asset quality would remain critical from a rating perspective, going forward.

Ability to improve profitability and contain credit costs – The yields on average earning assets declined marginally to 17.39% as on March 31, 2021 from 17.44% as on March 31, 2020 mainly due to the negative carry from the high on-book liquidity which the company was carrying on its balance sheet. This led to a decline in the net interest margins (NIMs) by 86 basis points (bps) in FY2021 to 7.75% from 8.61% in FY2020. AFPL's credit costs increased to 3.62% in FY2021 from 1.14% in FY2020 due to the Covid-related stress in the portfolio.

Consequently, it reported subdued profitability with net profit of Rs. 1.82 crore (excluding other comprehensive income; as per IndAS), translating into a return on average managed assets (RoMA) of 0.03% and a return on average net worth (RoNW) of 0.21% in FY2021 (Rs. 82.89 crore, 1.83% and 11.98%, respectively, in FY2020; as per IndAS). Given the uncertainty regarding the operating environment, the credit costs are likely to remain elevated in FY2022. The company's ability to control the credit costs and improve its profitability will be important from a credit perspective.

Ability to improve geographical diversification of operations – AFPL's operations are spread across 320 districts in 18 states with the top 3 states accounting for nearly 59% of the AUM as on March 31, 2021 (62% as on March 31, 2020). The company has actively reduced its concentration in Odisha to 31% of the AUM as on March 31, 2021 from 38% as on March 31, 2020 and 42% as on March 31, 2019. With the equity infusion of Rs. 228.65 crore in the form of compulsory convertible preference shares (CCPS), the portfolio concentration in Odisha reduced to 152% of the company's net worth from 221% as on March 31, 2020. However, there is scope for improvement in the district-level portfolio diversification as the top 5, 10 and 20 districts comprised 14%, 22% and 32%, respectively, of the AUM and 66%, 105% and 156%, respectively, of the net worth as on March 31, 2021. Going forward, the company's ability to further diversify its operations geographically as its scales up its operations will remain important from a credit perspective.

Ability to maintain prudent capitalisation profile – The rating takes into account the equity infusion of Rs. 228.65 crore from an overseas investor in March 2021, which led to an improvement in the gearing level. The company reported managed gearing² of 4.81 times as on March 31, 2021 (5.13 times as on March 31, 2020). Further, its capital to risk weighted assets ratio (CRAR) improved to 27.71% as on March 31, 2021 from 26.74% as on March 31, 2020. AFPL has a strong investor base, which has helped it scale up its operations while maintaining adequate capitalisation. Nonetheless, it would require additional equity capital to support the envisaged growth while maintaining a prudent capitalisation profile and also to provide a cushion to absorb the credit losses. ICRA notes that AFPL plans to raise additional equity capital in FY2022, which would be important from a rating perspective and remains monitorable.

Ability to manage political, communal, and other risks, given the marginal borrower profile – The rating factors in 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 the company's operations. AFPL's ability to onboard borrowers with a good credit history, recruit and retain employees and improve the geographical diversity of its operations would be key for managing high growth rates.

Liquidity position: Adequate

As on May 31, 2021, the company reported unencumbered on-book liquidity of Rs. 1,341 crore against scheduled debt obligations of Rs. 731 from June 2021 to September 2021. It witnessed current collection efficiency of around 92% in July 2021, which further supports its liquidity profile. ICRA expects AFPL to be able to meet its debt obligations in a timely manner, assuming its collection efficiency does not drop below the current levels. Additionally, the company has sanctioned but unavailed lines of Rs. 561 crore as on May 31, 2021, which along with collections will support its growth expansion plans.

² Managed gearing = (On-book borrowings)/(Net worth – cash collateral for managed portfolio)

Rating sensitivities

Positive factors – ICRA could revise the outlook or upgrade the rating if there is a sustained improvement in AFPL’s profitability indicators with a RoMA of more than 2.5% on a sustainable basis and an improvement in the geographical diversification with the maintenance of the asset quality. The company’s ability to raise equity and debt capital to support the envisaged growth while maintaining a prudent capitalisation profile with managed gearing of less than 5 times on a sustainable basis could positively impact the rating

Negative factors – Pressure on the rating could arise if there is a further deterioration in the asset quality, which could affect the profitability. A weakening in the earnings profile with RoMA falling below 1.5% on a sustained basis could exert pressure on the company’s rating. The weakening of the capitalisation profile with a managed gearing of more than 6 times or a stretch in the liquidity could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for Non-Banking Finance Companies ICRA’s policy on withdrawal of Credit Rating
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Annapurna Finance Private Limited (AFPL), formerly known as Annapurna Microfinance Private Limited (AMPL), is promoted by People’s Forum (PF), a society registered in Odisha. PF has been engaged in various socio-economic development programmes, including microfinance, since 1990. In November 2009, PF acquired a non-banking financial company (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 & home improvement loans, consumer durable loans, corporate loans, etc. As on March 31, 2021, AFPL was catering to more than 18 lakh borrowers through a network of 870 branches spread across 320 districts in 18 states while managing a portfolio of Rs4,793crore.

Key financial indicators (audited)

	FY2019	FY2020	FY2021
Accounting as per	IndAS	IndAS	IndAS
Net interest income	224.13	333.49	396.04
Profit after tax*	62.5	82.89	1.82
Net worth	618.49	765.55	991.25^
Assets under management	3,002.25	4,008.81	4,793.00
% PAT* / Average managed assets	2.16%	1.83%	0.03%
% PAT* / Average net worth	14.48%	11.98%	0.21%
% Gross NPAs	1.24%	1.36%	7.33%
% Net NPAs	0.65%	0.84%	2.87%
% Net NPA / Net worth	2.84%	3.96%	11.85%
% Capital adequacy ratio	25.24%	26.74%	27.71%
Gearing (reported)	4.44	5.11	4.79
Gearing (managed)	4.48	5.13	4.81

Source: Company, ICRA Research; All ratios as per ICRA calculations

**Excluding other comprehensive income; ^Including compulsorily convertible preference shares*

Managed gearing = (on-book borrowings)/(net worth – credit enhancement for business correspondent portfolio)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years											
		Type	Amount (Rs. Crore)	Amount outstanding (Rs. crore)	Aug-05-2021	FY2021						FY2020	FY2019				
						Dec-21-2020	Nov-16-2020	Aug-19-2020	Aug-04-2020	Jul-27-2020	May-22-2020	Sep-16-2019	Mar-29-2019	Sep-10-2018	Jun-22-2018	May-31-2018	
1	Term Loans-fund based	Long Term	1,079.10	1079.10	[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]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)
2	Term Loans-Unallocated	Long Term	20.90	-	[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]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)
3	NCD Programme	Long Term	493.74	493.74	[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]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)
4	NCD Programme*	Long Term	62.00	-	[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]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)
5	Subordinated Debt Programme	Long Term	84.00	84.00	[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]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)
6	Subordinated Debt Programme*	Long Term	5.00	-	[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]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term bank lines	Simple
Subordinated debt programme	Simple
NCD programme	Very Simple
Unallocated Bank Lines	Not Applicable

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans-fund based	Sep-2015 – May-2019	6.95% - 16.50%	Sep-2019 – Sep-2023	1,079.10	[ICRA]A-(Stable)
NA	Term Loans-Unallocated	-	-	-	20.90	[ICRA]A-(Stable)
INE515Q08044	Subordinated Debt	September 29, 2016	14.25%	September 29, 2022	25	[ICRA]A-(Stable)
INE515Q08028	Subordinated Debt	March 15, 2016	14.90%	September 15, 2021	20	[ICRA]A-(Stable)
INE515Q08036	Subordinated Debt	March 28, 2016	14.90%	September 28, 2021	5	[ICRA]A-(Stable)
INE515Q08051	Subordinated Debt	March 24, 2017	13.99%	May 15, 2023	34	[ICRA]A-(Stable)
INE515Q08010	Subordinated Debt*	30-06-2015	17.00%	18-12-2020	5	[ICRA]A-(Stable); withdrawn
INE515Q07160	NCD	December 08, 2015	12.00%	December 08, 2021	20.04	[ICRA]A-(Stable)
INE515Q07178	NCD	December 10, 2015	13.10%	December 10, 2021	26.7	[ICRA]A-(Stable)
INE515Q07202	NCD	August 30, 2017	12.49%	August 30, 2023	32.5	[ICRA]A-(Stable)
INE515Q08069	NCD	March 27, 2018	13.50%	September 27, 2023	15	[ICRA]A-(Stable)
INE515Q07319	NCD	July 07, 2020	12.25%	July 07, 2025	46.88	[ICRA]A-(Stable)
INE515Q07350	NCD	July 29, 2020	11.50%	July 28, 2023	25	[ICRA]A-(Stable)
INE515Q07368	NCD	August 06, 2020	11.50%	February 07, 2022	100	[ICRA]A-(Stable)
INE515Q07392	NCD	August 31, 2020	11.30%	August 29, 2025	100	[ICRA]A-(Stable)
INE515Q07442	NCD	November 17, 2020	10.25%	May 18, 2022	100	[ICRA]A-(Stable)
INE515Q07445	NCD	December 21, 2020	12.00%	December 18, 2023	27.50	[ICRA]A-(Stable)
INE515Q07186	NCD*	15-06-2016	13.00%	15-06-2021	60.00	[ICRA]A-(Stable); withdrawn
INE515Q07111	NCD*	29-06-2015	15.50%	18-12-2020	2.00	[ICRA]A-(Stable); withdrawn
-	NCD – Proposed	-	-	-	0.12	[ICRA]A-(Stable)

*-Ratings withdrawn

Annexure-2: 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

Jitesh Setia

+91 22 6114 3463

jitesh.setia@icraindia.com

Prateek Mittal

+91 33 7150 1132

prateek.mittal@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

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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