May 22, 2020

Annapurna Finance Private Limited: [ICRA]A-(Stable) assigned/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); reaffirmed
Subordinated debt programme	89.00	89.00	[ICRA]A-(Stable); reaffirmed
Non-convertible debenture programme	194.64	194.64	[ICRA]A-(Stable); reaffirmed
Non-convertible debenture programme	81.89	-	[ICRA]A-(Stable); reaffirmed and simultaneously withdrawn
Non-convertible debenture programme	-	60.00	[ICRA]A-(Stable); assigned
Total	**1,465.53**	**1,443.64**	

**Instrument details are provided in Annexure-1*

Rationale

The rating factors in Annapurna Finance Private Limited's (AFPL) experienced management team and good systems and processes, which have helped the company scale up its operations. As on March 31, 2020, AFPL was catering to more than 17 lakh borrowers through a network of 718 branches spread across 293 districts and 18 states while managing a portfolio of Rs. 4,030 crore. The rating takes into account the company's adequate capitalisation profile with a capital adequacy ratio of 23.17% (provisional), as on March 31, 2020, which was well above the regulatory requirement of 15%, while the gearing (adjusted)[1] moderated to 5.83 times from 4.70 times as on March 31, 2019. AFPL has a strong investor base, which has helped it scale up its operations while maintaining adequate capitalisation. ICRA takes note of the company's plans to raise equity capital by Q3 FY2021, which would help cushion the possible credit losses in the aftermath of the Covid-19 outbreak and also support the company's growth plans. AFPL's ability to raise equity capital in a timely manner would be important from a growth and credit perspective. The rating also factors in the company's diversified resource profile with funding relationships with more than 60 lenders as on March 31, 2020, comprising a good mix of private banks, public sector banks, financial institutions (FIs) and non-banking financial companies (NBFCs). The funding profile is well diversified and comprised bank loans (42%), FIs/NBFCs (25%), debentures (19%) and securitisation (13%) as on March 31, 2020.

The rating is, however, constrained by AFPL's geographically concentrated operations. ICRA notes that the company has actively reduced its concentration in Odisha to 38% of the assets under management (AUM)[2] as on March 31, 2020 from 41% as on March 31, 2019. However, the portfolio in Odisha represented 221% of the company's net worth (provisional as per IGAAP) as on March 31, 2020 compared to 205% as on March 31, 2019. Further, there is scope for improvement in the district-level portfolio diversification as the top 5, top 10 and top 20 districts comprised 17%, 26% and 37%, respectively, of the AUM[3] and 98%, 152% and 215%, respectively, of the

[1] Adjusted gearing = (on-book borrowings + pass-through certificates)/(net worth – credit enhancement for business correspondent portfolio)

[2] Excluding corporate loans

[3] Excluding corporate loans

net worth (provisional as per IGAAP) as on March 31, 2020. The rating also factors in the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks. 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.

The microfinance industry is facing many challenges following the spread of Covid-19 throughout the country. These include the continuity of business operations on the field and the possible adverse impact on the asset quality. The company's ability to manage the adverse impact of the Covid-19 pandemic on its asset quality and profitability will be important from a credit perspective.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that AFPL will continue to benefit from its experienced management team, strong investor base, good systems and processes and diversified borrowing profile.

Key rating drivers and their description

Credit strengths

Experienced management team and good systems enabling growth – AFPL has a track record of more than 10 years in microfinance operations and is one of the largest microfinance institutions (MFIs) in India based on AUM. The company has an experienced management team, good systems and processes, and a strong internal audit structure and risk framework, which has enabled growth in its operations. It has a separate credit team and risk management team apart from a loan origination team. The company has signed and is adhering to the code for responsible lending launched by the self-regulatory organisations of the industry.

Adequate capitalisation, given the current scale of operations – The company's reported capital adequacy ratio of 23.17% (provisional), as on March 31, 2020, was well above the regulatory requirement of 15% while the gearing (adjusted)[4] moderated to 5.83 times from 4.70 times as on March 31, 2019. The gearing level moderated as the portfolio growth (35%) in FY2020 outpaced the internal capital generation (12.28%; provisional) and no equity capital was raised during the year. AFPL last raised ~Rs. 138 crore of equity capital from Asian Development Bank in February 2019, which continued to hold a 17.01% stake (in equity shareholding) in the company as on March 31, 2020. Given the expected increase in the credit costs in the aftermath of the Covid-19 pandemic, the company would require additional equity capital to support the envisaged growth while maintaining a prudent capitalisation profile. ICRA notes that AFPL has plans to raise additional equity capital by Q3 FY2021, and the same would be critical from a rating perspective.

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 March 31, 2020, AFPL had funding relationships with more than 60 lenders. The funding profile is diversified and comprised bank loans (42%), FIs/NBFCs (25%), debentures (19%) and securitisation (13%) as on March 31, 2020. AFPL raised Rs. 3,330 crore of debt funds (including securitisation) in

[4] *Adjusted gearing = ((on-book borrowings + pass through certificates)/(net worth – credit enhancement for business correspondent portfolio))*

FY2020 from banks (44%), securitisation (25%), FIs/NBFCs (23%) and debentures (8%). The ability to raise fresh funds from FIs and under TLTRO[5] will be important from a liquidity perspective.

Credit challenges

Ability to improve geographical diversification of operations – AFPL's operations are spread across 293 districts in 18 states with the top 3 states accounting for nearly 62% of the AUM[6] as on March 31, 2020 (65% as on March 31, 2019). The company has actively reduced its concentration in Odisha to 38% of the AUM[7] as on March 31, 2020 from 41% as on March 31, 2019. However, the portfolio in Odisha represented 221% of the company's net worth (provisional as per IGAAP) as on March 31, 2020 compared to 205% as on March 31, 2019. Further, there is scope for improvement in the district-level portfolio diversification as the top 5, top 10 and top 20 districts comprised 17%, 26% and 37%, respectively, of the AUM[8] and 98%, 152% and 215%, respectively, of the net worth (provisional as per IGAAP) as on March 31, 2020. 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 manage adverse impact of Covid-19 pandemic on asset quality and profitability – The microfinance industry is facing many challenges following the spread of Covid-19 throughout the country. These include the continuity of business operations on the field and the possible adverse impact on the asset quality as microfinance players will have to collect multiple EMIs from the borrowers whose cash flows and economic activity have undergone a slowdown. Moreover, incremental business growth has been hindered with disbursements being muted in Q1 FY2020. The company's ability to navigate through the adversity and manage the impact on business growth, client retention and asset quality while maintaining the profitability indicators would be important from a rating perspective. In FY2020, the company reported a net profit (provisional as per IGAAP) of Rs. 78.19 crore, translating into a 1.73% return on average managed assets and 12.28% return on average net worth (Rs. 58.24 crore, 1.90% and 13.88%, respectively, in FY2019).

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, as recently observed in Assam with the company's 0+dpd and 90+dpd increasing to 3.03% and 1.79%, respectively, as on March 31, 2020 from 1.82% and 1.31%, respectively, as on September 30, 2019. 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.

[5] *Targeted long-term repo operations*

[6] *Excluding corporate loans*

[7] *Excluding corporate loans*

[8] *Excluding corporate loans*

Liquidity position: Adequate

AFPL has adequate liquidity. As on March 31, 2020, the company had Rs. 897 crore of cash, bank balance and liquid investments, which is sufficient to honour its scheduled debt obligations for Q1 FY2021 in a timely manner. The company has also applied for a moratorium on its debt obligations and has received formal approval from some of the lenders, which further reduces its debt obligations for Q1 FY2021. Additionally, it has been able to raise ~Rs. 243 crore of debt funds during YTD FY2021, which further supports its liquidity profile. The ability to raise fresh funds from FIs and under TLTRO will be important from a liquidity perspective.

Rating sensitivities

Positive triggers – ICRA could revise the outlook or upgrade the rating if there is a sustained improvement in AFPL's profitability indicators with a return on managed assets (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 an adjusted gearing of less than 5 times on a sustainable basis could positively impact the rating.

Negative triggers – Pressure on the company's rating could arise if there is a deterioration in the asset quality or operational efficiencies, which could affect its profitability with RoMA falling below 1.5% on a sustained basis. A deterioration in the capitalisation profile with the adjusted gearing exceeding 6 times on a sustained basis or a stretch in liquidity could exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies ICRA's Policy on Withdrawal and Suspension of Credit Rating
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 (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, 2020, AFPL was catering to more than 17 lakh borrowers through a network of 718 branches spread across 293 districts and 18 states while managing a portfolio of Rs. 4,030 crore.

Key financial indicators (audited)

As per For the period ended	IGAAP FY2019	IGAAP FY2020*
Net interest income	210.71	305.61
Profit after tax	58.24	78.19
Net worth^	596.39	677.51
Assets under management	3,002.25	4,029.88
% PAT / Average managed assets	1.90%	1.73%
% PAT / Average net worth	13.88%	12.28%
% Gross NPAs	1.27%	1.86%
% Net NPAs	0.10%	0.29%
% Net NPA / Net worth	0.41%	1.49%
% Capital adequacy ratio	25.23%	23.17%
Gearing (reported)	4.29	5.71
Gearing (adjusted)	4.70	5.83

**Provisional; ^Including compulsorily convertible preference shares;*

Adjusted gearing = (on-book borrowings + pass-through certificates)/(net worth – credit enhancement for business correspondent portfolio)

Amounts in Rs. crore; Source: Company & ICRA research

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years								
		Type	Rated amount	Amount outstanding	22-May-20	FY2020	FY2019				FY2018			
						16-Sep-19	29-Mar-19	18-Sep-18	22-Jun-18	31-May-18	28-Mar-18	05-Jan-18	06-Sep-17	26-Jul-17
1	Term Loans	Long Term	1,100.00	1,068.37	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	NCD Programmes	Long Term	81.89	-	[ICRA]A- (Stable); reaffirmed and simultaneously withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	NCD Programmes	Long Term	194.64	194.64	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4	NCD Programmes	Long Term	60.00	-	[ICRA]A- (Stable); assigned	-	-	-	-	-	-	-	-	-
5	Subordinated Debt Programme	Long Term	89.00	89.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Amounts in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Sep-2015 – May-2019	6.95% - 16.5%	Sep-2019 – Sep-2023	1,068.37	[ICRA]A-(Stable)
NA	Unallocated	-	-	-	31.63	[ICRA]A-(Stable)
INE515Q07194	NCD*	29-12-2016	12.50%	13-12-2019	35	[ICRA]A-(Stable); reaffirmed and simultaneously withdrawn
INE515Q07095	NCD	29-05-2015	14.70%	29-05-2020	38.40	[ICRA]A-(Stable)
INE515Q07186	NCD	15-06-2016	13.00%	15-06-2021	60	[ICRA]A-(Stable)
INE515Q07137	NCD*	14-09-2015	11.11%	13-09-2019	33	[ICRA]A-(Stable); reaffirmed and simultaneously withdrawn
INE515Q07111	NCD	29-06-2015	15.50%	18-12-2020	2	[ICRA]A-(Stable)
INE515Q07160	NCD	08-12-2015	12.00%	08-12-2021	20.04	[ICRA]A-(Stable)
INE515Q07178	NCD	10-12-2015	13.10%	10-12-2021	26.70	[ICRA]A-(Stable)
INE515Q07202	NCD	30-08-2017	12.49%	30-08-2023	32.50	[ICRA]A-(Stable)
INE515Q08069	NCD	27-03-2018	13.50%	27-09-2023	15	[ICRA]A-(Stable)
INE515Q08085	NCD*	25-05-2018	12.11%	22-11-2019	13.89	[ICRA]A-(Stable); reaffirmed and simultaneously withdrawn
-	NCD – proposed	-	-	-	60.00	[ICRA]A-(Stable); assigned
INE515Q08010	Subordinated Debt	30-06-2015	17.00%	18-12-2020	5	[ICRA]A-(Stable)
INE515Q08044	Subordinated Debt	29-09-2016	14.25%	29-09-2022	25	[ICRA]A-(Stable)
INE515Q08028	Subordinated Debt	15-03-2016	14.90%	15-09-2021	20	[ICRA]A-(Stable)
INE515Q08036	Subordinated Debt	28-03-2016	14.90%	28-09-2021	5	[ICRA]A-(Stable)
INE515Q08051	Subordinated Debt	24-03-2017	13.99%	15-05-2023	34	[ICRA]A-(Stable)

**instrument matured and redeemed; Source: Company*

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