Annapurna Finance Pvt. Ltd.

June 14, 2018

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities	260 (enhanced from 130)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Reaffirmed
Total Bank Facilities	**260 (Rs. Two hundred and sixty crore only)**		

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facility of Annapurna Finance Private Limited continues to draw strength from long track record of promoters in the microfinance industry, diversified resource profile, frequent equity infusion marked by comfortable CAR, satisfactory financial performance, comfortable operational set-up and governance framework and comfortable liquidity profile. The rating continues to be constrained by concentrated portfolio in the state of Odisha, moderate asset quality, regulatory risks & political risks inherent in the industry and competition from other players.
Ability of the company to improve profitability and asset quality would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long Track record of the promoters: AFPL is promoted by the Pattanaik family of Odisha, with around 20.5% of the holding of equity shares of AMPL as on Mar 31, 2018. The company is led by Mr. Gobinda Chandra Pattanaik (CEO) along with his cousins, Mr.Sanjay Pattanaik (COO) and Mr. Dibyajyoti Pattanaik (CFO). The promoters of AFPL have more than two decades of experience in micro-financing activity. The affairs of the company are being looked after by the Pattanaik family along with a professional team. AFPL has a track record of over two decades and has been working towards socio-economic development in the state of Odisha since 1990.

Diversified resource profile: AFPL has a healthy resource profile as it has been successful in availing term loans from 38 banks/FIs as on Dec 31, 2017. The total borrowings of the company has increased significantly over the past marked by lower reliance on term loans from NBFCs. Broad-based resource profile enables the company to raise funds at competitive rates.

Regular Equity infusion marked by comfortable CAR: The existing promoters as well as institutional investors have demonstrated support to AFPL by way of equity infusion at regular intervals. Regular equity infusion by institutional investors has helped the company increase its scale of operations and has also helped the company establish its credentials.
Regular equity infusion has resulted in healthy CAR for the company despite high growth in the portfolio size. Although the CAR has moderated from 23.07% as on March 31, 2016 to 22.36% as on March 31, 2017 and further to 17.86% as on Mar 31, 2018, it continues to remain at comfortable levels.
The CAR is expected to improve further, as the company has received an equity investment of Rs.155 crore in June 2018 and is further expected to receive Rs.45 crore equity investment by June 2018.

Satisfactory financial performance: The scale of operations of the company has increased through FY15 to FY18 aided by regular capital infusion and higher bank borrowings. Consequently, the number of borrowers & loan portfolio has increased manifold over the last three years. The total operating income of the company grew by 38.33% y-o-y in FY18. NIM increased from 4.43% in FY17 to 5.57% in FY18 mainly due to the base effect of FY17 due to slower disbursements in H2FY17 on the back of demonetization along with lower interest cost.
Operating expense (excluding provision & write-off) / Avg. total asset deteriorated from 5.39% in FY17 to 5.74% in FY18. Provisioning cost (as a % of ATA) increased significantly from 0.72% in FY17 to 2.69% in FY18 on the back of high one-time provisioning cost of Rs.48.39 crore, representing the bad-debts emanating from demonetization period. The management

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

does not expect abnormally higher provisioning cost in the future. Consequently, ROTA moderated from 1.48% in FY17 to 0.53% In FY18.

Comfortable operational set-up and governance framework: AFPL has a comfortable operational set-up and governance framework backed by a professional management team and experienced Board of Directors (BoD) comprising 12 members out of which two are promoter-directors, and the remaining are nominee directors from BIO and SIDBI and other Independent promoters.
The company has formed various Board-level committees like the audit Committee, CSR Committee, ALM committee, etc for effective monitoring of the day-to-day operations of the company. The company has an in-house internal audit team consisting of. Internal audit of branches is conducted on a monthly basis and the report is directly submitted to the Managing Director.

Adequate IT infrastructure in line with growing scale of operation: AFPL has adequate IT infrastructure in place to support its growing scale of operation. AFPL has achieved computerization in 100% of branches and all branches have shifted from excel based manual system to in-house developed software – "FIMO". The on-line software has been developed by a private vendor and is operational at each of its branches and head office. All types of reports including overdue report and demand collection report at branch level can be generated within a short span of time.
This apart, AFPL has successfully implemented the mobile technology which facilitates instant recording of collection information & other details, thereby enhancing the quality of central level monitoring. AFPL has started a tablet-based loan application, appraisal, disbursement and transaction to reduce the turnaround time along with better compliant processes.

Comfortable liquidity profile: The liquidity profile of AFPL is comfortable as its Asset Liability Management profile as of December 31, 2017 indicates positive cumulative mismatches in all the buckets. This is mainly due to majority of the loan products of AFPL having fortnightly collection mechanism with average tenor of one year as against majority of liabilities being term loans (of tenor one to two years).

Key Rating Weaknesses

Moderate portfolio quality: The asset quality of AFPL improved in March 2018 as the effect of demonetization receeded during the year. The PAR>30 days had deteriorated to 7.7% as on March 31, 2017 mainly due to the effect of demonetization. However, PAR>30 days improved significantly to 3.8% as on March 31, 2018.

Geographical concentration of operation in Odisha: The operation of the company has expanded from 5 states in FY15 to 10 states in FY17 and 11 states 9MFY18. However, the portfolio continues to be highly concentrated in Odisha with 47.79% as on Dec. 31, 2017 (54.97% as on Mar.31, 2017) of its portfolio being concentrated in Odisha.

Competition from other players: AFPL faces stiff competition from large MFIs which not only operates in majority of the districts in which AFPL operates but also enjoys economies of large scale operations. Furthermore, it faces competition from other small players also.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Non-Banking Financial Companies
Financial ratios – Financial sector

About the Company

Annapurna Finance Private Limited (AFPL, erstwhile, Annapurna Microfinance Pvt Ltd) was initially promoted in 1990 as a society by the name of People's Forum (PF). It started operation in Khurda district of Orissa with the objective to form and promote self-help groups (SHGs) and socio-economic development.

In November 2009, PF acquired Gwalior Finance and Leasing Company Private Limited, a NBFC registered in Varanasi (Uttar Pradesh) and transferred its microfinance loan portfolio to the NBFC. The name of the NBFC was changed to Annapurna Microfinance Private Limited (AMPL) in February 2010. The group focussed on developing micro-finance business through AFPL and PF was used to focus on developmental activities in rural areas of Odisha. The name of the company was further changed from Annapurna Microfinance Private Limited to Annapurna Finance Private Limited (AFPL) on January 22, 2018.

AFPL is engaged in the business of lending to women borrowers under 'Self-Help Groups (SHG), Joint Liability Group (JLG) as well as individual lending model and is operating in rural & urban areas across 11 different states (Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Maharashtra, Rajasthan, Assam, Meghalaya, Tripura, Odisha and Punjab).

As on Mar 31, 2018, the asset under management of AFPL was Rs.1953 crore (including managed portfolio of Rs.355 crore)

Financials of Annapurna Finance Private Limited (Standalone)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total income	150.18	247.47
NIM	5.92	4.43
PAT	18.18	18.91
Overall gearing (times)	7.27	7.68
Interest coverage (times)	1.40	1.23
CAR (%)	19.43	22.36

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2020	260.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	141.78	Suspended	-	-	-	1)Suspended (27-Nov-15)
2.	Debentures-Non Convertible Debentures	LT	29.20	Suspended	-	-	-	1)Suspended (27-Nov-15)
3.	Fund-based - LT-Term Loan	LT	260.00	CARE BBB+; Stable	1)CARE BBB+; Stable (11-Apr-18)	-	-	-

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