Annapurna Finance Private Limited

January 08, 2020

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	451.83 (enhanced from 317.34)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Total facilities	**451.83 (Rs. Four hundred and fifty one crore and eighty three lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Annapurna Finance Private Limited (AFPL) continues to draw comfort from the long track record of the promoters in the microfinance industry, diversified resource profile, established operational set-up and governance framework and comfortable capitalisation and liquidity profile. The rating also takes note of the improvement in financial performance of the company in FY19 (refers to the period April 1 to March 31) and H1FY20 marked by increase in advances, improvement in return indicators and lower credit cost along with improvement in asset quality over FY18.

The rating, however, continues to remain constrained by the geographical concentration of portfolio, regulatory risks and political risks inherent in the industry and competition from other players.

Rating Sensitivities

Positive factors

- Sustaining the improvement in capitalization level
- Continued good asset quality with Gross Non Performing Assets (GNPA) remaining below 1% on a sustained basis
- Improvement in profitability
- Further reduction in concentration to a single state

Negative Factors

- Tier I CAR going below 15% or significant increase in overall gearing
- Decline in profitability
- Deterioration in asset quality

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of the promoters

AFPL is promoted by Mr. Gobinda Chandra Pattanaik of Odisha. The company is led by Mr. Gobinda Chandra Pattanaik (MD) and Mr. Dibyajyoti Pattanaik (Director).

The promoter of AFPL has more than two decades of experience in micro-financing activity. The affairs of the company are being managed by Mr. Gobinda Chandra Pattanaik 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.

Established operational set-up and governance framework

AFPL has an established 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 of the investors and other Independent directors. Majority of the ownership of AFPL is with institutional investors like Women's World banking Asset Management, Asian Development Bank (ADB), Oman India Joint Investment Fund, Belgium Investment Company, SIDBI and Oikocredit Ecumenical Development Cooperative Society. ADB took stake in the company in FY19.

AFPL has adequate IT infrastructure in place to support its growing scale of operation. It has achieved computerization in all branches and shifted from excel based manual system to in-house developed software – "FIMO". 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 and other details, thereby enhancing the quality of central level monitoring. AFPL has a tablet-based loan application, appraisal, disbursement and transaction system to reduce the turnaround time along with better compliant processes.

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

Diversified resource profile
AFPL has been availing credit facilities in the form of term loans and debentures. Though AFPL relies heavily on term loans (comprising around 74% of its total borrowings as on September 30, 2019), it has a diversified lender base and availed such loans from 48 banks/financial institutions as on Sep 30, 2019. The average cost of borrowing reduced to 10.63% in FY19 from 11.58% in FY18. Further, broad-based resource profile enables the company to raise funds at competitive rates.

Comfortable capitalisation
The existing promoters as well as institutional investors have demonstrated support to AFPL by way of equity infusion at regular intervals. Such infusion has helped the company increase its scale of operations and increase its market presence. Regular equity infusion has resulted in healthy Capital Adequacy Ratio (CAR) for the company despite high growth in the portfolio size. Overall CAR improved significantly from 18.68% as on March 31, 2018 to 25.23% as on March 31, 2019, due to equity infusion of Rs.292 crore and accretion of profits to reserve. The overall CAR continued to remain comfortable at 24% as on September 30, 2019. Tier I CAR also improved from 13.29% as on March 31, 2018 to 22.30% as on March 31, 2019 but moderated to 20.88% as on September 30, 2019.

Improvement in financial performance in FY19
The scale of operations of the company increased in FY19 and H1FY20 aided by capital infusion and higher bank borrowings. Consequently, the number of borrowers and loan portfolio has increased.
The AUM increased by 56.33% from Rs.1920 crore as on March 31, 2018 to Rs.3002 crore as on March 31, 2019 and further to Rs.3425 crore as on September 30, 2019.
AFPL's total income grew by about 48% y-o-y to Rs.505 crore in FY19 driven by higher interest income (which increased from Rs.273.16 crore in FY18 to Rs.385.63 crore in FY19), securitisation income and processing fees.
Since the growth mainly took place in H2FY19, the full effect of the growth in portfolio was not reflected in the total income of FY19. Moreover, the company had reduced the rate of interest across its loan products and also introduced low yielding products like housing loans and housing improvement loans in FY19. Accordingly, the yield declined from 21.15% in FY18 to 18.93% in FY19. With simultaneous reduction in average cost of funds, NIM improved from 5.61% in FY18 to 6.10% in FY19. Operating expense/average total assets, however, increased in FY19 as the company opened new branches during the year.
Credit cost normalized from 2.76% in FY18 to 0.55% in FY19 as the provisions in FY18 were higher on account of effect of demonitisation. Resultantly, ROTA also improved significantly from 0.54% in FY18 to 2.20% in FY19.
In H1FY20, the performance of the company remained stable. NIM improved to 7.89% during H1FY20. However, credit cost increased to 0.73% in H1FY20 resulting in ROTA of 2.15% in H1FY20. The higher provisioning was on account of Fani Cyclone during May 2019 which affected the asset quality of Odisha state.

Improvement in asset quality
The PAR>90 days (including managed portfolio) improved from 1.90% as on March 31, 2018 to 1.10% as on March 31, 2019 but moderated to 1.31% as on September 30, 2019 due to the effect of Fani cyclone which effected the portfolio of Odisha state (particularly districts adjoining Kurdah and Puri). The GNPA (PAR>90 days for on-book assets) also improved from 2.11% as on March 31, 2018 to 1.27% as on March 31, 2019 but moderated to 1.52% as on September 30, 2019. The collection efficiency of AFPL improved in FY19 (98.69%) and H1FY20 (98.81%) as compared to 97.05% in FY18.
The first cycle lending portfolio, however, continued to remain high at around 76% as on September 30, 2019 mainly due to rapid increase in the size of the portfolio in newer geographies.

Key Rating Weaknesses
Geographical concentration of operation in Odisha
The operation of the company has expanded from 13 states in FY18 to 15 states in FY19 and 16 states by September 30, 2019. However, the portfolio continues to be concentrated in Odisha with 37.78% as on September 30, 2019 (47.28% as on Mar.31, 2018) of its portfolio being concentrated in the state exposing the company to event based risks associated in the region.

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.

Regulatory risks & socio political risks inherent in the industry
Post the AP crisis and regulatory intervention by RBI, the microfinance sector has seen strong growth in loan portfolio on account of improving funding profile, control over operating expenses, improving margins and moderate leverage levels. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. However, on account of various events post demonetization, collection efficiency of the MFIs had deteriorated during FY17. This has

impacted the asset quality of the MFIs leading to increase in credit costs during FY17 and FY18. However with improvement in the scenarios during FY18, the overall industry had grown by around 47% during FY19 in terms of AUM and collection efficiency of the overall industry improved during FY18 with 30+dpd improved to 1.73% as on March 31, 2019 from 4.03% as on March 31, 2018 (source: MFIN).
With further improvement expected in the overall MFI industry over the medium term, the ability to withstand event risks and avoid deterioration in the asset quality leading to impact in the overall profitability will be the key considerations. The credit view will continue to factor in risks associated with unsecured lending, socio-political intervention, geographic concentration and operational risks related to cash based transactions.

Liquidity: Adequate
The liquidity of AFPL is adequate with no negative cumulative mismatches in any of the time buckets as per the asset liability maturity profile as on September 30, 2019. This is due to relatively shorter tenure of advances as compared to tenure of borrowings. Further, the company had free cash and liquid investment of Rs.392 crore as on Sep.30, 2019.
The liquidity of the company is also supported by access to securitisation market.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios –Financial Sector
Rating Methodology- Non Banking Financial Companies

About the Company
AFPL (erstwhile, Annapurna Microfinance Pvt Ltd) was initially promoted in 1990 as a society by the name of People's Forum (PF) by Mr. Gobinda Chandra Pattanaik of Odisha. 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 promoters 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) in January, 2018. The day to day operations of the company are looked after by Mr. Gobinda Chandra Pattanaik (MD and CEO) and Mr. Dibyajyoti Pattanaik (Director) along with a professional team.
AFPL is engaged in micro finance lending to women borrowers under 'Self-Help Groups (SHG), Joint Liability Group (JLG) as well as individual loans, housing loans and MSME loans.
AFPL's lending primarily consists of microfinance lending to women borrowers under 'Self-Help Groups (SHG), Joint Liability Group (JLG). It has also entered into new lending markets including individual loans, housing loans and MSME loans, which are categorized into non-qualifying assets.
As on Sep.30, 2019, the assets under management of AFPL were Rs.3425 crore (including managed portfolio of Rs.525 crore) spread across 691 branches across 16 states.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total income	341.00	505.16
PAT	9.54	58.24
Interest coverage (times)	2023.59	3267.21
Total Assets	1.10	1.42
Net NPA (%)	0.30	0.10
ROTA (%)	0.54	2.20

A: Audited
CARE has made analytical adjustments while calculating the ratios.
Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

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

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	-	-	Dec 2022	451.83	CARE A-; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	451.83	CARE A-; Stable	1)CARE A-; Stable (05-Apr-19)	1)CARE BBB+; Stable (14-Jun-18) 2)CARE BBB+; Stable (11-Apr-18)	-	-

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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