Annapurna Finance Private Limited

July 13, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures (NCD)	100.00 (Rs. One Hundred crore only)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the NCD issue of Annapurna Finance Private Limited (AFPL) draws 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 factors in the growth in scale of operations in FY20 (provisional, refers to the period April 1 to March 31), though there was marginal increase in credit cost due to deterioration in asset quality.

The rating continues to remain constrained by the geographical concentration of portfolio, inherent risks in the micro finance industry including unsecured lending, regulatory risks & socio-political intervention, operational risks related to cash based transaction and competition from other players.

Further, the rating takes note of the operational challenges being faced on account of the outbreak of Covid-19 and expectation of increase in credit cost. The ability to grow the loan book and control credit costs remains to be seen considering the nationwide outbreak and uncertainty with respect to achieving normalcy. The company has plans to raise equity by end of Q2FY21 to fund growth in portfolio and maintain healthy capitalisation.

The company has extended moratorium to its borrowers as per the RBI guidelines, however, the ability of the borrowers to pay back immediately after the moratorium is over remains critical. CARE would continue to monitor the developments with regards to asset quality and collection efficiency. The company has also applied for moratorium to its lenders and has received confirmation from some of the lenders.

Rating Sensitivities

Positive Factors: Factors that could lead to positive rating action/upgrade

- Sustaining the capitalisation level
- Improvement in 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: Factors that could lead to negative rating action/downgrade

- Tier I CAR going below 15% or significant increase in overall gearing beyond present level
- 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 (MD) of Odisha. The company is led by him and Mr. Dibyajyoti Pattanaik (Director).

The promoter has more than two decades of experience in micro-financing activity and the affairs of the company are being managed by him 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

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

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 also 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, and disbursement and transaction system to reduce the turnaround time along with better compliant processes.

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 77% of its total borrowings as on March 31, 2020), it has a diversified lender base and availed term loans from 48 banks/financial institutions as on March 31, 2020. The average cost of borrowing increased to 11.38% in FY20 (prov) from 10.63% in FY19 mainly due to averaging effect of loans availed and subdued resource mobilisation scenario in the NBFC sector.

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 remained adequate at 23.17% as on March 31, 2020 as compared to minimum regulatory requirement of 15%.

Overall gearing increased to 5.66x as on March 31, 2020 (prov) as against 4.26x as on March 31, 2019. The company has plans to raise equity in FY21 to manage its capital structure.

Growth in portfolio
The scale of operations of the company increased in FY20, mainly funded by increase in debt. Assets under Management (AUM) grew by about 34% to about Rs.4,030 crore as on March 31, 2020 (prov) as against about Rs.3,002 crore as on March 31, 2019.

With growth in portfolio, AFPL's total income grew by about 49% y-o-y to Rs.751.35 crore in FY20 (prov) driven by higher interest income, securitisation income and processing fees. While interest spread remained stable as compared to FY19 with simultaneous increase in yield and cost of borrowing, NIM declined due to significant increase in other assets including cash and bank balances.

Good asset quality, though deteriorated marginally
The asset quality remained good with GNPA as a percentage of advances at 1.86% as on March 31, 2020 (prov) and Net NPA at 0.30%. However, the same has witnessed marginal deterioration as compared to March 31, 2019 when GNPA was 1.27% and Net NPA was 0.1%. PAR>90 days, including managed portfolio, was also higher at 1.79% as on March 31, 2020 (prov) as compared to 1.10% as on March 31, 2019. The collection efficiency has witnessed deterioration in Q4FY21 mainly on account of higher delinquencies in Assam region.

With deterioration in asset quality, credit cost increased from 0.55% in FY19 to 0.87% in FY20 (prov). Resultantly, ROTA also declined marginally from 2.20% in FY19 to 1.96% in FY20. Credit costs are likely to increase due to the disruptions caused by outbreak of Covid-19 and the same remains a key rating monitorable.

Key rating weaknesses
Geographical concentration of operation in Odisha
The operation of the company has expanded from 15 states as on March 31, 2019 to 18 states as on March 31 2020 across 293 districts. However, the portfolio continues to be concentrated in Odisha with 37.02% as on December 31, 2019 (41% as on March 31, 2019) of its portfolio being concentrated in the state exposing the company to event based risks associated in the region. It comprised more than 2x of the networth as on that date. Further reduction in concentration of portfolio is a key rating sensitivity.

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. Further, banks and NBFCs are also trying to increase their direct presence in rural areas to meet the priority sector lending requirement. About 95% of the portfolio of AFPL is in the rural areas.

Regulatory risks & socio political risks inherent in the industry

Post the Andhra Pradesh 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, it remains exposed to event based risks and marginal profile of borrowers. The recent outbreak of Covid-19 is likely to impact asset quality and credit costs. The ability to withstand event risks and avoid further 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 provisional ALM of AFPL as on March 31, 2020 indicates a deficit in the 1-3 months bucket on account of the impact of Covid-19 wherein company has provided moratorium to borrowers. It had also applied to its lenders and received moratorium from some of the lenders. On the debt repayment side, however, in the ALM, the company has not factored in all moratoriums received from lenders. Still, the company has positive cumulative mismatches in all the time buckets. The company has provided Moratorium-II till August 2020 to borrowers who have opted in for the same.

The company had cash and bank balance of about Rs.203 crore and free fixed deposits of about Rs.632 crore as on April 30, 2020. It can meet its debt repayment obligation upto September 2020 considering the above cash balance. It is also in the process of raising equity and further debt in the near term.

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 and to its present name in January, 2018.

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.

As on March 31, 2020, the assets under management of AFPL were Rs.4030 crore (including managed portfolio of Rs.563 crore) spread across 718 branches in 18 states.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (P)
Total income	505.16	751.35
PAT	58.24	78.19
Interest coverage (times)	1.42	1.41
Total Assets	3267.21	4701.65
Net NPA (%)	0.10	0.30
ROTA (%)	2.20	1.96

A: Audited, P: Provisional

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Proposed Debentures-Non Convertible Debentures		-	-	-	100.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	451.83	CARE A-; Stable	-	1)CARE A-; Stable (08-Jan-20) 2)CARE A-; Stable (05-Apr-19)	1)CARE BBB+; Stable (14-Jun-18) 2)CARE BBB+; Stable (11-Apr-18)	-
2.	Debt-Non-convertible Debenture/Subordinate Debt	LT	34.00	CARE A-; Stable	-	1)CARE A-; Stable (24-Mar-20)	-	-
3.	Debt-Non-convertible Debenture/Subordinate Debt	LT	39.60	CARE A-; Stable	-	1)CARE A-; Stable (24-Mar-20)	-	-
4.	Debt-Non-convertible Debenture/Subordinate Debt	LT	15.00	CARE A-; Stable	-	1)CARE A-; Stable (31-Mar-20)	-	-
5.	Debentures-Non Convertible Debentures	LT	50.00	CARE A-; Stable	1)CARE A-; Stable (04-Jun-20)	-	-	-
6.	Debentures-Non Convertible Debentures	LT	10.00	CARE A-; Stable	1)CARE A-; Stable (04-Jun-20)	-	-	-
7.	Debentures-Non Convertible Debentures	LT	100.00	CARE A-; Stable	-	-	-	-

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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