# Annapurna Finance Private Limited

October 07, 2020

**Ratings**

| Facilities/ Instrument | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 412.08 (Reduced from 451.83) (Four Hundred Twelve Crore and Eight Lakhs Only) | CARE A-; Stable (Single A Minus; Outlook: Stable) | Reaffirmed |
| Unsecured Subordinated Non-convertible Debentures (NCD) | 88.60 (Rs. Eighty-Eight Crore and Sixty Lakhs Only) | | |
| Secured NCD | 160.00 (Rs. One Hundred and Sixty Crore only) | | |
| | 25.00 (Rs. Twenty Five Crore only) | | Assigned |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities/instruments of Annapurna Finance Private Limited (AFPL) continue 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, good asset quality, comfortable capitalisation and adequate liquidity profile. The ratings also factors in the continued growth in scale of operations in FY20 (refers to the period April 1 to March 31), though profitability remained moderate.

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

Furthermore, the ratings continue to factor in the operational challenges being faced on account of the ongoing pandemic and expectation of increase in credit cost. Considering the nationwide outbreak and uncertainty with respect to achieving normalcy, the company's ability to navigate through the adversity and manage the impact on business growth, client retention, credit cost, asset quality and profitability would remain critical from a rating perspective, going forward. The company has plans to raise equity by end of FY21 to fund growth in portfolio and maintain healthy capitalisation.

The company had offered moratorium to its customers from March 2020 in line with the RBI Covid-19 Regulatory package. With relaxations in lock-down conditions, the collections have gradually improved upto August 2020. 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 had also received moratorium from some of its lenders.

<u>Rating Sensitivities</u>

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

- Sustaining the overall capitalisation level and Tier I CAR being maintained at minimum 18%.
- Gross Non-Performing Assets (GNPA) remaining below 1% on a sustained basis
- Substantial improvement in Return on Total Assets (ROTA)
- Reduction in geographical concentration and growth in portfolio.

*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
- ROTA reducing to lower than 1.50% on a sustained basis
- Significant increase in GNPA going forward and/or deterioration in collection efficiency on a sustained basis

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

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Long track record of the promoters***

AFPL is promoted by Mr. Gobinda Chandra Pattanaik (Managing Director) 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. It has gradually developed a strong presence in the state.

***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 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 majorly in the form of term loans and debentures. Though AFPL relies heavily on term loans (comprising around 75% of its total borrowings as on March 31, 2020), it has a diversified lender base and availed term loans from 47 banks/financial institutions, ECBs from 8 investors as on June 30, 2020. The average cost of borrowing increased to 11.34% in FY20 from 10.21% in FY19 mainly due to averaging effect of loans availed and subdued resource mobilisation scenario in the NBFC sector. In Q1FY21, the company raised debt of about Rs.1,019 crore through various lenders.

***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 comfortable at 26.74% as on March 31, 2020 as compared to minimum regulatory requirement of 15%. Tier I CAR was also healthy at 20.36% as on March 31, 2020.

Overall gearing increased to 5.12x as on March 31, 2020 as against 4.46x as on March 31, 2019. In FY21, the company has firm plans to raise equity from existing and new investors to maintain CAR considering expectation of increase in credit cost due to the ongoing pandemic and also to fund growth.

***Growth in portfolio with moderate profitability***

The scale of operations of the company continued to increase in FY20, mainly funded by increase in debt. Assets under Management (AUM) increased from Rs.3002 crore as on March 31, 2019 to Rs.4009 crore as on March 31, 2020 and then moderated to Rs.3888 crore as on June 30, 2020. With relaxation in lock-down restrictions, disbursements started from May 2020 and the AUM was about Rs.4128 crore as on August 31, 2020.

With growth in portfolio, AFPL's total income grew by about 50% y-o-y to Rs.780 crore in FY20 driven by higher interest income, securitisation income and processing fees. While interest spread remained relatively stable in FY20 as compared to FY19 with simultaneous increase in yield and cost of borrowing, NIM moderated marginally from 7.73% in FY19 to 7.50% in FY20 on account of debt funded increase in advances. The profitability continues to remain moderate.

***Good asset quality, though moderated marginally***

The asset quality remained good with GNPA as a percentage of advances at 1.36% as on March 31, 2020 and Net NPA at 0.86%. However, the same has witnessed marginal deterioration as compared to March 31, 2019 when GNPA was 1.24% and Net NPA was 0.65%. The collection efficiency was impacted marginally in H2FY20 largely on account of the stress in the

Assam region portfolio (5% of AUM). Post that, with the outbreak of Covid-19, there was extension of moratorium to customers as per the RBI circular. During April 2020 and May 2020, the collections were insignificant. However, with the relaxation of lockdown restrictions, the collection efficiency of AFPL has witnessed an improving trend and reached about 85% as at end of August 2020.
With deterioration in asset quality and additional provisions for expected impact of Covid-19, credit cost increased from 0.70% in FY19 to 1.27% in FY20. Resultantly, ROTA also declined marginally from 2.28% in FY19 to 1.99% in FY20.
Further developments in asset quality and its impact on profitability remains a key rating monitorable.

***Key rating weaknesses***
***Geographical concentration of operation in Odisha***
The operation of the company has expanded from 16 states as on March 31, 2019 to 18 states as on March 31 2020. However, the portfolio continues to be concentrated in Odisha with 37% as on March 31, 2020 (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 around 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 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 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, marginal profile of borrowers, socio-political intervention, geographic concentration and operational risks related to cash based transactions.

**Liquidity: Adequate**
The Asset Liability Maturity statement of AFPL as on June 30, 2020 indicates no negative cumulative mismatches in the upto one year buckets. This is due to relatively shorter tenure of advances as compared to tenure of borrowings. The company had liquidity of about Rs.1083 crore as on August 31, 2020 in the form of cash and fixed deposits as against repayment obligation of about Rs.1400 crore till end of FY21.The collection efficiency of the company has also gradually improved since June 2020 with collections at about 85% in August 2020.

**Analytical approach:** Standalone

**Applicable Criteria**
Criteria on Assigning outlook & Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology- Non-Banking Financial Companies (NBFC)
Financial Ratios- Financial Sector

**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.4009 crore (including managed portfolio of Rs.504 crore) spread across 718 branches in 18 states.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 517.96 | 779.62 |
| PAT | 62.50 | 82.89 |
| Interest coverage (times) | 1.42 | 1.26 |
| Total Assets | 3481.25 | 4841.88 |
| Net NPA (%) | 0.65 | 0.86 |
| ROTA (%) | 2.28 | 1.99 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

**Covenants of rated instrument / facility:** *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

**Complexity level of various instruments rated for this company**: Annexure 4

**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 |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | - | January 2023 | 412.08 | CARE A-; Stable |
| Debt-Subordinate Debt | INE515Q08127 | March 31, 2020 | 12.21% | April 30, 2025 | 34.00 | CARE A-; Stable |
| Debt-Subordinate Debt | INE515Q08101 | March 24, 2020 | 13.00% | April 24, 2027 | 39.60 | CARE A-; Stable |
| Debt-Subordinate Debt | INE515Q08119 | March 27, 2020 | 14.50% | May 15, 2026 | 15.00 | CARE A-; Stable |
| Debentures-Non Convertible Debentures | INE515Q07301 | June 26, 2020 | 11.50% | June 26, 2023 | 15.00 | CARE A-; Stable |
| Debentures-Non Convertible Debentures | INE515Q07285 | June 05, 2020 | 11.50% | June 05, 2023 | 10.00 | CARE A-; Stable |
| Debentures-Non Convertible Debentures | INE515Q07343 | July 24, 2020 | 11.75% | July 24, 2023 | 25.00 | CARE A-; Stable |
| Debentures-Non Convertible Debentures | INE515Q07335 | July 21, 2020 | 10.00% | January 21, 2022 | 20.00 | CARE A-; Stable |
| Debentures-Non Convertible Debentures | INE515Q07350 | July 30, 2020 | 11.50% | July 28, 2023 | 25.00 | CARE A-; Stable |
| Debentures-Non Convertible Debentures | INE515Q07376 | August 12, 2020 | 10.75% | February 11, 2022 | 50.00 | CARE A-; Stable |
| Debentures-Non Convertible Debentures | - | Proposed | - | - | 15.00 | CARE A-; Stable |
| Debentures-Non Convertible Debentures | - | Proposed | - | - | 25.00 | 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 | 412.08 | CARE A-; Stable | - | 1)CARE A-; Stable (08-Jan-20)<br>2)CARE A-; Stable (05-Apr-19) | 1)CARE BBB+; Stable (14-Jun-18)<br>2)CARE BBB+;Stable (11-Apr-18) | - |
| 2. | Debt-Subordinate Debt | LT | 34.00 | CARE A-; Stable | - | 1)CARE A-; Stable (24-Mar-20) | - | - |
| 3. | Debt-Subordinate Debt | LT | 39.60 | CARE A-; Stable | - | 1)CARE A-; Stable (24-Mar-20) | - | - |
| 4. | Debt-Subordinate Debt | LT | 15.00 | CARE A-; Stable | - | 1)CARE A-; Stable (31-Mar-20) | - | - |
| 5. | Debentures-Non Convertible Debentures | LT | 15.00 | 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 | 70.00 | CARE A-; Stable | 1)CARE A-; Stable (13-Jul-20) | - | - | - |
| 8. | Debentures-Non Convertible Debentures | LT | 35.00 | CARE A-; Stable | - | - | - | - |
| 9. | Debentures-Non Convertible Debentures | LT | 15.00 | CARE A-; Stable | - | - | - | - |
| 10. | Debentures-Non Convertible Debentures | LT | 15.00 | CARE A-; Stable | - | - | - | - |
| 11. | Debentures-Non Convertible Debentures | LT | 25.00 | CARE A-; Stable | - | - | - | - |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities**

| **1. Subordinated NCD- 34 crore** | **Detailed explanation** |
|---|---|
| **Major Financial covenants** | |
| - CAR | Minimum regulatory requirement + 2% |
| - Ratio of PAR over 1 day | Max 15% |
| - Ratio of PAR over 30 days | Max 7% |
| - Unhedged open foreign currency ratio | -25% to 25% |
| - Ratio of loan loss reserves over PAR over 90 days | Min 80% |
| **Major Non-financial covenants** | |
| - Standard reporting | Customary information and reporting covenants |
| **2. Subordinated NCD- Rs.39.60 crore** | |
| **Financial covenants** | |
| - CAR | Not less than 15% |
| - Ratio of total debt to total equity | Not more than 7x |
| - Uncovered capital ratio | Below 15% |
| - Extent of unhedged non-INR denominated | Less than 5% of its assets and liabilities |

| | |
|---|---|
| currency | |
| - Ratio of outstanding off balance sheet portfolio to total assets | Less than 40% |
| **Non-financial covenants** | |
| - Standard reporting and negative covenants. | Monthly reports within no later than 20 days after the close of each month. |
| **3. Subordinated NCD- Rs.15 crore** | |
| **Major Financial covenants** | |
| - Ratio of financial indebtedness to tangible networth | Not exceed 6x |
| - Ratio of net NPA to tangible net worth | Not exceed 10% |
| - No cumulative liquidity mismatch in any of the standard buckets up to 12 months on all standard liquidity buckets, as prescribed by RBI | - |
| - To be profitable in any financial year beginning FY20 | - |
| - Minimum Tier-1 capital | 12.5% |
| - CAR | As stipulated by RBI or 17%, whichever is higher |
| - NNPA | Not to exceed 1% |
| **Major Non-financial covenants** | |
| - Standard reporting, affirmative and negative covenants. | Quarterly reports within 45 days, annual reports within 120 days and event based reports in 5 days post approval of the Board |
| **4. Secured NCD- Rs.10 crore, Rs.15 crore** | |
| **Major Financial covenants** | |
| - CAR | As prescribed by RBI (currently 15%) |
| - Debt Equity Ratio | Not more than 7.5x |
| **Non-financial covenants** | |
| - Rating downgrade/upgrade event | In the event that the rating of the Issuer is downgraded by one notch from its current rating, the applicable coupon rate shall be increased by 0.25% (Step up rate).<br>Following the Step Up until the rating of the Debentures is restored to the Rating, if the rating of the Debentures is upgraded, the prevailing Step Up Rate shall be decreased 0.25% for each upgrade of one notch from the rating of the Debentures (until the rating of the Debentures is restored to the Rating). |
| **5. Secured NCD- Rs.25 crore** | |
| **Major Financial covenants** | |
| - CAR | As prescribed by RBI (currently 15%) |
| - Debt Equity Ratio | Not more than 7x |
| - GNPA | Less than 4.5% |
| - NNPA | Less than 1% |
| **Non-financial covenants** | |
| - Rating downgrade/upgrade event | In the event that the rating of the Issuer is downgraded by one notch from its current rating, the applicable coupon rate shall be increased by 0.25%.<br>The bank shall have a right of early redemption in case the ratings fall by two notches. |
| **6. Secured NCD- Rs.25 crore** | |
| **Major Financial covenants** | |
| - CAR | As prescribed by RBI (currently 15%) |
| **Non-financial covenants** | |
| - Rating downgrade/upgrade event | In the event that the rating of the Issuer is downgraded by one notch from its current rating, the applicable coupon rate shall be increased by 0.25%. |

**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Debentures-Non Convertible Debentures | Simple |
| 2. | Debt-Subordinate Debt | Complex |
| 3. | Fund-based - LT-Term Loan | Simple |

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

## .Contact us

**Media Contact**
Mradul Mishra
Contact no: +91-22-6837 4424
Email ID : mradul.mishra@careratings.com

**Analyst Contact**
Name: Ms. Mamta Muklania
Contact no. : 033-4018 1651/98304 07120
Email ID : mamta.khemka@careratings.com

**Relationship Contact**
Name: Mr. Lalit Sikaria
Contact no. : 033-40181607
Email ID: lalit.sikaria@careratings.com

**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**