Annapurna Finance Pvt. Ltd.
March 24, 2020

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Unsecured Subordinated Redeemable NCD – Series I	34.00	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Assigned**
Proposed Unsecured Subordinated Redeemable NCD – Series II	39.60	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Assigned**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Annapurna Finance Private Limited (AFPL) 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 ratings also factor in the relatively stable financial performance of the company in 9MFY20 (refers to the period April 1 to December 31), though there was marginal increase in credit cost due to deterioration in asset quality.

The ratings take note of the moderate exposure of AFPL in the Assam region where collections have been impacted since Q3FY20 due to various socio-political issues and delinquencies have witnessed an increase. Assam portfolio comprised 6.44% of the Assets under Management (AUM) as on Dec.31, 2019 and Portfolio At Risk (PAR) > 0 was 16.58% as on Dec.31, 2019, though PAR > 90 remained low at 0.22%. As articulated by the management, the company does not expect significant loss arising out of the portfolio and it has already made significant provisions on the exposure. CARE will continue to monitor the impact of the same on the profitability and capitalisation of AFPL.

The ratings continue 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.

Rating Sensitivities

Positive factors

- 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

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

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 also successfully implemented the mobile technology which facilitates instant recording of collection information and other details, thereby enhancing the

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

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.

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 74.75% of its total borrowings as on December 31, 2019), it has a diversified lender base and availed such loans from 47 banks/financial institutions as on December 31, 2019. The average cost of borrowing reduced to 10.63% in FY19 from 11.58% in FY18. However, it increased to 12.34% during 9MFY20 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 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 22.76% as on December 31, 2019. Tier I CAR was 20.07% as on December 31, 2019.

Stable financial performance in 9MFY20
The scale of operations of the company had increased in FY19 aided by capital infusion and higher debt. AFPL's total income grew by about 48% y-o-y to Rs.505 crore in FY19 driven by higher interest income, 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.
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.3652 crore as on December 31, 2019.
In 9MFY20, the performance of the company remained stable. NIM improved to 6.48% during 9MFY20. However, credit cost increased to 0.73% in 9MFY20. The higher provisioning was mainly on account of deterioration of asset quality in Assam.

Comfortable asset quality, though deteriorated as on December 31, 2019
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 1.57% as on December 31, 2019. The collection efficiency of AFPL improved in FY19 (98.69%) as compared to 97.05% in FY18. However, the collection efficiency declined to 97.58% during 9MFY20 and further to 97.15% for January 2020, mainly due to the adverse impact of portfolio in Assam.
The first cycle lending portfolio, however, continued to remain high at around 75.65% as on December 31, 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 17 states by December 31, 2019. However, the portfolio continues to be concentrated in Odisha with 37.02% as on December 31, 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. As on December 31, 2019, the portfolio based in Assam constituted around 6.44% of total AUM.

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 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 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 December 31, 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.583.6 crore as on December 31, 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 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 Dec.31, 2019, the assets under management of AFPL were Rs.3652 crore (including managed portfolio of Rs.556 crore) spread across 706 branches in 17 states.

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

A: Audited
Covenants of rated instrument: Detailed explanation of covenants of the rated instruments is given in Annexure-3

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
Proposed Debt-Non-convertible Debenture/Subordinate Debt	March 24, 2020	12.21	-	34.00	CARE A-; Stable
Proposed Debt-Non-convertible Debenture/Subordinate Debt	March 24, 2020	13.00	-	39.60	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 (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	-	-	-	-
3.	Debt-Non-convertible Debenture/Subordinate Debt	LT	39.60	CARE A-; Stable	-	-	-	-

Annexure-3: Detailed explanation of proposed covenants of the rated instrument (Rs. 34 crore)

Name of the Instrument: Subordinated NCD (Proposed)	**Detailed explanation**
A. Financial covenants	
i. The capital adequacy ratio (minimum regulatory requirement + 2%),	The company would be required to maintain overall CAR at 2% higher than stipulated by RBI (Currently 15%). Presently, the company would be required to maintain a minimum CAR of 17%. However, the CAR requirement may change if the RBI changes the regulatory CAR.
ii. Portfolio at Risk (PAR)> 1 day should be maximum 15% and PAR>30 days should be maximum 7%. Ratio of loan loss reserves over PAR>90 days should be minimum 80%	PAR, in excess of the specified limit would be considered as a breach of covenant.
iii. Unhedged foreign currency ratio to be in the range of +/-25%	The company has to hedge its foreign exchange exposure.
B. Non-financial covenants	
-	-

Annexure-3: Detailed explanation of proposed covenants of the rated instrument (Rs. 39.6 crore)

Name of the Instrument: Subordinated NCD (Proposed)	**Detailed explanation**
A. Financial covenants	
i. The capital adequacy ratio of not less than 15%. ii. Ratio of total debt to total equity to remain below 7x iii. Uncovered capital ratio to remain below 15% iv. Less than 5% of its liabilities and assets in (unhedged) non INR denominated currency v. Ratio of outstanding off-balance sheet portfolio to total assets less than 40%.	The company would be required to maintain the mentioned financial parameters as stipulated.
B. Non-financial covenants	
The Issuer will not, without prior written consent of the Purchasers - Change its business such that it no longer remains an NBFC; - Undertake any merger, consolidation or reorganization; and - Enter into a single transaction or a series of transactions (whether related or not) to sell, lease, transfer or otherwise dispose of all or	The investor will have the right to request mandatory early repayment whereby existing shareholders are diluted below 67% of voting rights.

Name of the Instrument: Subordinated NCD (Proposed)	Detailed explanation
substantially all of its assets, other than asset securitizations; - Allow for a Change of Control event.	

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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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.

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