Annapurna Finance Private Limited

April 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	317.34 (enhanced from 260.00)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**
Total	**317.34 (Rs. Three hundred and seventeen crore and thirty four lacs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Annapurna Finance Private Limited (AFPL) takes into account the improvement in financial performance of the company in 9MFY19 (refers to the period April 1 to December 31) marked by increase in scale of operation with improvement in profitability and asset quality parameters. The rating also factors in the significant infusion of equity into the company in FY19 leading to improvement in capitalisation level.

The rating continues to draw strength from long track record of promoters in the microfinance industry, diversified resource profile, satisfactory operational set-up and governance framework and comfortable liquidity profile.

The rating is constrained by concentrated portfolio, regulatory risks & political risks inherent in the industry and competition from other players.

Ability of the company to improve profitability while maintaining 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. The company is led by Mr. Gobinda Chandra Pattanaik (MD) along with his cousins, Mr. Sanjay Pattanaik (COO) and Mr. Dibyajyoti Pattanaik (Director).

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. Mr. Sanjay Pattanaik has over 15 years of experience in the MFI sector and has been associated with AFPL for over a decade. Mr. Dibyajyoti Pattanaik has been instrumental in transformation of AFPL from being a society to its present status of a NBFC-MFI.

Diversified resource profile

AFPL has a diversified resource profile as it has been successful in availing term loans from 48 banks/FIs as on Dec.31, 2018 and also raised funds through debentures. The average cost of borrowing reduced from 12.76% in FY17 to 11.58% in FY18 and further to 11.46% as on 9MFY19 on the back of overall decline in interest rate along with higher proportion of loan from banks (usually carrying relatively lower rate of interest). Broad-based resource profile enables the company to raise funds at competitive rates.

Significant infusion of equity in FY19 leading to improvement in capitalisation

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. The company raised equity of Rs.155 crore in June 2018 and Rs.137 crore in February 2019 from institutional investors which has resulted in healthy Capital Adequacy Ratio (CAR) despite high growth in the portfolio size. The CAR improved to 23.83% as on Dec.31, 2018 as against 18.68% as on March 31, 2018.

Going forward, the management has articulated that the CAR is expected to be maintained at minimum 20%.

Improvement in financial performance in 9MFY19

The scale of operations of the company increased in FY18 and 9MFY19 aided by capital infusion and increase in debt. The Assets under Management (AUM) increased from Rs.1238.63 crore as on Mar.31, 2017 to Rs.1920.40 crore as on Mar.31, 2018 and further to Rs.2353.98 crore as on Dec.31, 2018.

AFPL's total income grew by 37.79% y-o-y to Rs.341 crore in FY18 driven by higher interest income (which increased from Rs.194.56 crore in FY17 to Rs.273.16 crore in FY18) and processing fees. Net Interest Margin (NIM) improved from 4.43% in FY17 to 5.61% in FY18. Operating expense/average total assets deteriorated marginally from 5.58% in FY17 to 5.89% in FY18 despite an increase in average disbursement amount due to the additional cost associated with entering

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

new states and operating new branches (which generally takes around 6 month to achieve viable scale of operations) and higher off-book portfolio (which increased from Rs.220.35 crore as on Mar.31, 2017 to Rs.355.52 crore as on Mar.31, 2018).
Provisioning cost (as a % of Average Total Assets) increased significantly from 0.72% in FY17 to 2.76% in FY18. Higher provisioning was a result of the decline in asset quality emanating from demonetization period. Resultantly, ROTA declined significantly from 1.48% in FY17 to 0.54% in FY18. In 9MFY19, the performance of the company has improved significantly on the back of increase in AUM and improved asset quality. The company achieved NIM of 7.24% (5.61% in FY18) and ROTA of 2.54% (0.54% in FY18) in 9MFY19. The improvement in ROTA was mainly on account of lower provisioning cost of 0.63% (2.76% in FY18).

Satisfactory operational set-up and governance framework

AFPL has a satisfactory 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.
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. Internal audit of all branches is conducted on a quarterly basis and the comprehensive report is directly placed to Audit committee of the Board every quarter.

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”. 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, 2018 indicates positive cumulative mismatches in all short-term 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 borrowings (of tenor one to two years).

Improvement in portfolio quality in 9MFY19

The PAR>90 days (including managed portfolio) improved from 2.29% as on Mar.31, 2017 to 1.90% as on Mar.31, 2018 and further to 1.78% as on Dec.31, 2018 due to the receding effect of demonetization, which effected the portfolio quality significantly as on March 31, 2017. The GNPA (PAR>90 days for on-book assets) increased from 0.22% as on Mar.31. 2017 to 2.11% as on Mar.31, 2018 due to continuing effect of demonitisation. However, the company has created significant amount of provisions in FY18 and the net NPA was 0.3%. The asset quality of AFPL improved as on Dec.31, 2018 with collection efficiency of 99.41% in 9MFY19 and net NPA of 0.1%.

Key rating weaknesses

Geographical concentration of operation in Odisha

The operation of the company has expanded from 10 states in FY17 to 13 states in FY18 and 14 states in 9MFY19. However, the portfolio continues to be concentrated in Odisha with 43.28% as on Dec. 31, 2018 (47.28% as on Mar.31, 2018) of its portfolio being in Odisha.

Competition from other players

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

Regulatory risks & socio political risks inherent in the industry

The sector faces socio-political risks, regulatory uncertainty but has huge unmet potential demand.
Microfinance has reached an important inflection point in India and other Asian countries. Most large and established MFIs have transformed into Small Finance Banks and will have access to deposits and greater operational leverage. FinTech is reshaping financial services and particularly the MFI sector in many ways. New age players are disrupting the micro-credit segment using digital data and technology. MFIs will need to respond to these transformative changes in the ecosystem by embracing technology, establishing enduring partnerships, diversifying product portfolio and moving beyond the traditional group lending model.

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
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 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 14 different states.
As on Dec 31, 2018, the asset under management of AFPL was Rs.2353.98 crore (including managed portfolio of Rs.457.28 crore) spread across 542 branches across 14 states.

Brief Financials (Rs. crore)	**FY17 (A)**	**FY18 (A)**
Total income	247.47	341.00
PAT	18.91	9.54
Total Assets	1531.11	2023.59
Interest coverage (times)	1.23	1.10
Net NPA (%)	0.03	0.30
ROTA (%)	1.48	0.54

A: Audited
Status of non-cooperation with previous CRA: NA
Any other information: Nil
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	317.34	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 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	317.34	CARE A-; Stable	1)CARE BBB+; Stable (14-Jun-18) 2)CARE BBB+; Stable (11-Apr-18)	-	-	-

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