ANNAPURNA FINANCE
GROWING TOGETHER

To,
Department of Corporate Services,
BSE Limited, 1st Floor, P.J. Towers,
Dalal Street, Mumbai – 400 001

Date: 10/01/2024

Subject: Intimation under Regulation 55 of SEBI (Listing Obligations and Disclosure Requirements) Regulation 2015, as amended (the "Listing Regulations") during Financial Year 2023-24 for listed NCDs

Dear Sir/Madam,

In terms of SEBI Operational Circular No. SEBI/HO/DDHS/DDHS_Div1/P/CIR/2022 /0000000103 dated July 29, 2022 and pursuant to Regulation 55 of the Listing Regulations, it is hereby informed that the details of ratings of Non-Convertible Debentures (NCDs) of Annapurna Finance Pvt. Ltd. reviewed by Care ratings Limited, CRISIL Limited and ICRA Limited vide their press release/rationales dated September 20th, 2023, April 4th, 2023 and December 04, 2023, has been provided in the Annexure A.

Kindly acknowledge the same.

For Annapurna Finance Pvt. Ltd.

SUBRATA PRADHAN
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Subrata Pradhan
(Company Secretary)

Encl: Annexure A

ANNAPURNA FINANCE
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ANNEXURE-A

(Details of Annual review of rating-by-Rating Agencies during financial year 2023-24)

Details of credit rating									
Current rating details									
S. No.	ISIN	Name of the Credit Rating Agency	Credit rating assigned	Outlook (Stable/ Positive/ Negative/ No Outlook)	Rating Action (New/ Upgrade/ Downgrade/ Re-Affirm/ Other)	Specify other rating action	Date of Credit rating (Initial Rating)	Verification status of Credit Rating Agencies	Date of verification (Date of review letter by rating agencies)
1	2	3	4	5	6	7	8	9	10
1	INE515Q07525	CARE Ratings Limited	CARE A-	Positive	Re-Affirm	NA	01-07-2021	Verified	20-09-2023
2	INE515Q07533	CARE Ratings Limited	CARE A-	Positive	Re-Affirm	NA	28-06-2021	Verified	20-09-2023
3	INE515Q08168	CARE Ratings Limited	CARE A-	Positive	Re-Affirm	NA	14-12-2021	Verified	20-09-2023
4	INE515Q07228	CRISIL Ratings Limited	CRISIL A-	Stable	Re-Affirm	NA	13-12-2018	Verified	04-04-2023
5	INE515Q08176	CRISIL Ratings Limited	CRISIL A-	Stable	Re-Affirm	NA	12-02-2019	Verified	04-04-2023
6	INE515Q08093	CRISIL Ratings Limited	CRISIL A-	Stable	Re-Affirm	NA	24-04-2019	Verified	04-04-2023
7	INE515Q08192	ICRA Limited	ICRA A-	Stable	Re-Affirm	NA	20-09-2022	Verified	04-12-2023
8	INE515Q07582	ICRA Limited	PP-MLD ICRA A-	Stable	Re-Affirm	NA	20-09-2022	Verified	04-12-2023
9	INE515Q07590	ICRA Limited	ICRA A-	Stable	Re-Affirm	NA	11-10-2022	Verified	04-12-2023
10	INE515Q08218	ICRA Limited	ICRA A-	Stable	Re-Affirm	NA	21-03-2023	Verified	04-12-2023

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11	INE515Q08226 (Tranch I)	ICRA Limited	ICRA A-	Stable	New	NA	18-07-2023	Verified	04-12-2023
12	INE515Q08226 (Tranch II)	ICRA Limited	ICRA A-	Stable	New	NA	21-08-2023	Verified	04-12-2023
13	INE515Q08242	ICRA Limited	ICRA A-	Stable	New	NA	01-12-2023	Verified	01-12-2023

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Annapurna Finance Private Limited

September 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,011.99	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Long-term- Long-term instruments	34.00	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Long-term- Long-term instruments	39.60	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Long-term- Long-term instruments	15.00	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Long-term- Long-term instruments	71.25	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	15.00	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	18.75	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	40.00	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	3.25	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	30.00	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	50.40	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Non-convertible debentures	50.00	CARE A-; Positive	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the long-term instruments and bank facilities of Annapurna Finance Private Limited (AFPL) continues to draw comfort from growing scale of operations with asset under management (AUM) rising to ₹8,996 crore as on June 30, 2023. The ratings also consider the long track record of the promoters in the microfinance industry, diversified resource profile, and frequent capital infusion from the various external investors leading to comfortable capitalisation metrics. CARE Ratings Limited (CARE Ratings) will continue to monitor the ability of the company to continue raising the capital to fund future growth with comfortable gearing.

Furthermore, these rating strengths are partially offset with the moderate asset quality risk profile, although improving, with net stress assets to net advances of 3.45% as on March 31, 2023 (net stress assets includes net non-performing assets of ₹96.35 crore, net security receipt of ₹95.49 crore and standard restructure assets of ₹29.5 crore as on Mar-23), which has further reduced to 2.52% as on June 30, 2023, owing to write-offs and sale of delinquent portfolio to asset reconstruction company (ARC) . The ratings also factor in the geographical concentration of AFPL's loan portfolio, inherent risks in the micro finance industry, including unsecured lending, leading to higher risk profile.

CARE Ratings notes that AFPL has applied for the Banking license with Reserve Bank of India (RBI) in November 2022 which is under process.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in the profitability profile with return on total asset (RoTA) of more than 3% on a sustained basis.
- Sizable scale-up of operations whilst ensuring lower geographical concentration.
- Sizeable equity infusion leading to improvement in the net worth and controlled gearing.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative factors - Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Weakening of capitalisation profile with managed gearing of more than 5x.
- Significant deterioration in the asset quality profile impacting profitability.

Analytical approach: Standalone

Outlook: Positive

The revision in the outlook to positive reflects the improvement in the overall financial profile and AUM of the company. The positive outlook also signifies CARE Ratings' expectation that the company will continue to grow its business operations as envisaged in a calibrated manner with improvement in the asset quality metrics and profitability. Furthermore, CARE Ratings expects continuous support from the investors in future as well. However, the outlook may be revised back to stable in case the company is unable to get capital infusion in the near term, or it reports moderation in its asset quality and profitability metrics.

Detailed description of the key rating drivers:

Key strengths

Improving scale of operations

As on March 31, 2023, supported by regular capital raise, AFPL was able to report robust loan book growth with its AUM increasing by 34% ytd to ₹8,749 crore from ₹6,553 crore as on March 31, 2022. This has further grown to ₹8,996 crore as on June 30, 2023. Currently, the company has a presence in 20 states through a network of 1,237 branches as on June 30, 2023, and caters to almost 2.82 million borrowers. The company's focus is the microfinance segment, which amounted to dominant 86% of AUM as on June 30, 2023, though reduced from 99% of AUM as on March 31, 2018. The micro, small & medium enterprises (MSME) segment has gradually increased from 1% of AUM as on March 31, 2018, to 14% of AUM as on June 30, 2023. With this, AFPL has breached the minimum qualifying criteria limit of 75% of its total assets as the company has reported qualifying assets of 67.61% as March 31, 2023. RBI, vide its letter dated May 18, 2023, has provided a timeline till September 30, 2023, to fulfil the minimum qualifying criteria. As on June 30, 2023, the company's qualifying assets were 68.09%. Going forward, CARE Ratings will continue to monitor AFPL's ability to comply with the minimum qualifying criteria while maintaining the high growth rate.

Diversified resource profile

The resource profile of AFPL remains diversified with it having banking relationships with more than 60 lenders and distributed across various instruments, majority of which is concentrated towards term loans from banks/financial institutions (73%), followed by secured and unsecured non-convertible debentures (13%) external commercial borrowings (9%) and other borrowings including sub-debt (4%). During the Q1FY24, the company has raised ₹1,201 crore in the form of term loans and NCDs at the interest rate ranging from 9.65% to 11.70%.

Experienced management profile with continuous support from investors

AFPL's locus of operations is Odisha and is promoted by Gobinda Chandra Pattanaik (Managing Director) and Dibyajyoti Pattanaik (Director). The promoters have more than two decades of experience in micro-financing activity and the affairs of the company are being managed by them along with a professional team. AFPL has a track record of over a decade and has gradually developed a strong presence in the state. Apart from the promoter support, the company is backed by other strong institutional investors such as Nuveen Global Impact Fund, Oman India Joint Investment Fund, Asian Development Bank, Belgian Investment Company for Developing Countries and Oikocredit. Till FY23 (refers to the period April 1 to March 31), AFPL has received capital infusion of ₹1,310 crore in the form of equity, compulsory convertible preference shares (CCPS) and compulsory convertible debentures (CCD). In FY22, the company received capital infusion of ₹409 crore in the form of CCD and CCPS, and in FY23, the company further received infusion of ₹117 crore in the form of CCPS. Regular equity infusion has resulted in healthy capital adequacy ratio (CAR)% for the company despite sequential growth in the loan book. However, CARE Ratings will continue to monitor the ability of the company to raise capital and maintain healthy gearing levels, going forward.

Moderate asset quality, albeit improving

With the gradual improvement in collections, significant write-offs and the sale to an asset reconstruction company (ARC), the asset quality of the company has improved, with the gross stress assets (which includes gross non-performing assets [GNPA] of ₹200 crore, standard restructure assets of ₹6.7 crore, and security receipts of ₹282 crore as on June 30, 2023) reducing from 17.80% as on March 31, 2022, to 7.3% as on June 30, 2023. Furthermore, the company carries sufficient provisions against its stress assets. After adjusting the provision, the net stress assets to net advance ratio has reduced to 2.5% as on June 30, 2023, as compared with 12.4% as on March 31, 2022. Furthermore, the 0+ delinquency of the company has also improved from 14.7% as on June 30, 2022, to 4% as on June 30, 2023. Going forward, CARE Ratings expects the asset quality to remain under control.

Key weaknesses

Geographical concentration of operations

Given the locus of operations of the company being in Odisha, the portfolio continues to be majorly driven from Odisha with 20% of its portfolio as on March 31, 2023 (25% as on March 31, 2022) which has further reduced to 19% of AUM as on June 30, 2023. The company had 50% of its AUM concentrated in top three states, namely, Odisha, Madhya Pradesh, and Bihar as on March 31, 2023, and 51% of its AUM as on June 30, 2023. Having more than half of portfolio concentrated in only three states exposes AFPL to the event-based risks associated in these regions.

Moderate profitability, albeit improving

After reporting subdued profitability in FY22 and FY23, AFPL was able to improve its overall profitability, reporting a return on total assets (RoTA) of 2.96% in Q1FY24. The improvement in RoTA is backed by increase in lending rates owing to removal of interest rate cap by the RBI which has resulted into improvement in net interest margins (NIMs) to 12.17% as compared with 9.64% in FY22 and 10.35% in FY23. The operating expenses to average assets ratio has increased from 5.75% in FY22 to 6.32% in FY23 and 6.62% in Q1FY24 owing to branch expansion and hiring of additional workforce. However, credit cost has declined in Q1FY24 to 2.79% from 4.59% in FY23 and 3.00% in FY22 leading to improvement in the overall RoTA to 2.96% from 0.42% in FY23 and 0.27% in FY22. Going forward, CARE Ratings expects profitability to improve considering improved margins.

Susceptibility of business on account of event-based risks

The company's business operations are highly susceptible to event-based risks such as socio-political disruptions, regulatory risks, and natural calamities. Besides, due to the unsecured nature of the portfolio, there is no recourse available to the company, in case of default by the borrower. Going forward, CARE Ratings will continue to monitor AFPL's ability to withstand such economic shocks while maintaining the asset quality and profitability metrics.

Liquidity: Adequate

The company has comfortable liquidity profile, given high amount of liquidity surplus in the form of cash and bank balances. Also, the liquidity profile is further augmented by periodic equity infusions. As per asset liability mismatch (ALM) statement as on June 30, 2023, there are no negative cumulative mismatches for any time bucket. It has cash and bank balance of ₹1,135.66 crore (including unpledged fixed deposits) as on June 30, 2023.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Microfinance Institutions

AFPL (erstwhile, Annapurna Microfinance Private Limited [AMPL]) was initially promoted in 1990 as a society by the name of People's Forum (PF) by Gobinda Chandra Pattanaik in Odisha. It started operation in the 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 non-banking finance company (NBFC) registered in Varanasi, Uttar Pradesh, and transferred its microfinance loan portfolio to the NBFC. The name of the NBFC was changed to AMPL in February 2010 and then to its present name in January 2018. AFPL is engaged in micro finance lending to women borrowers under SHGs, joint-liability group (JLG) as well as individual loans, housing loans and MSME loans.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,152.77	1,569.57	486.63
PAT	17.13	32.72	64.20
Interest coverage (times)	1.06	1.09	1.45
Total assets	7,130.95	8,545.35	8,750.11
Net NPA (%)	2.86	1.52	1.05
ROTA (%)	0.27	0.42	2.96

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	INE515Q07533	09-07-2021	11.20%	09-07-2026	40.00	CARE A-; Positive
Debentures-Non-convertible debentures	INE515Q07525	12-07-2021	11.20%	12-07-2026	37.00	CARE A-; Positive
Debentures-Non-convertible debentures	INE515Q07566	05-07-2022	11.35%	07-07-2028	50.00	CARE A-; Positive
Debentures-Non-convertible debentures	INE515Q08168	22-12-2021	11.50%	24-12-2027	30.00	CARE A-; Positive
Debt-Subordinate debt	INE515Q08101	23-03-2020	13.00%	13-04-2027	39.60	CARE A-; Positive
Debt-Non-convertible debenture/Subordinate debt	INE515Q08135	12-01-2021	12.29%	18-02-2028	71.25	CARE A-; Positive
Debt-Subordinate debt	INE515Q08127	31-03-2020	12.21%	30-04-2025	34.00	CARE A-; Positive
Debt-Subordinate debt	INE515Q08119	27-03-2020	14.50%	15-05-2026	15.00	CARE A-; Positive
Debentures-Non-convertible debentures	Proposed				50.40	CARE A-; Positive
Fund-based - LT-Term loan		-	-	24-03-2026	2,011.99	CARE A-; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	2011.99	CARE A-; Positive	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	1)CARE A-; Stable (10-Nov-20) 2)CARE A-; Stable (07-Oct-20)
2	Debt-Subordinate debt	LT	34.00	CARE A-; Positive	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	1)CARE A-; Stable (07-Oct-20)
3	Debt-Subordinate debt	LT	39.60	CARE A-; Positive	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	1)CARE A-; Stable (07-Oct-20)
4	Debt-Subordinate debt	LT	15.00	CARE A-; Positive	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	1)CARE A-; Stable (07-Oct-20)
5	Debentures-Non-convertible debentures	LT	-	-	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	1)CARE A-; Stable (07-Oct-20) 2)CARE A-; Stable (04-Jun-20)
6	Debentures-Non-convertible debentures	LT	-	-	1)Withdrawn (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	1)CARE A-; Stable (07-Oct-20) 2)CARE A-; Stable

									(04-Jun-20)
7	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	1)CARE A-; Stable (07-Oct-20) 2)CARE A-; Stable (13-Jul-20)
8	Debentures-Non-convertible debentures	LT	-	-	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	1)CARE A-; Stable (07-Oct-20)
9	Debentures-Non-convertible debentures	LT	-	-	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	1)CARE A-; Stable (07-Oct-20)
10	Debentures-Non-convertible debentures	LT	15.00	CARE A-; Positive	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	1)CARE A-; Stable (07-Oct-20)
11	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	1)CARE A-; Stable (07-Oct-20)
12	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21)	-
13	Debentures-Non-convertible debentures	LT	18.75	CARE A-; Positive	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21) 2)CARE A-; Stable (29-Jun-21)	1)CARE A-; Stable (14-Jan-21) 2)CARE A-; Stable (30-Dec-20)
14	Debt-Non-convertible debenture/Subordinate debt	LT	71.25	CARE A-; Positive	1)CARE A-; Stable (31-May-23)	1)CARE A-; Stable (29-Dec-22)	1)CARE A-; Stable	1)CARE A-; Stable

					2)CARE A-; Stable (07-Apr-23)	2)CARE A-; Stable (06-Jul-22)	(30-Sep-21)	(14-Jan-21)
15	Debentures-Non-convertible debentures	LT	40.00	CARE A-; Positive	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21) 2)CARE A-; Stable (29-Jun-21)	-
16	Debentures-Non-convertible debentures	LT	3.25	CARE A-; Positive	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21) 2)CARE A-; Stable (29-Jun-21)	-
17	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (30-Sep-21) 2)CARE A-; Stable (29-Jun-21)	-
18	Debentures-Non-convertible debentures	LT	30.00	CARE A-; Positive	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	1)CARE A-; Stable (16-Dec-21)	-
19	Debentures-Non-convertible debentures	LT	50.40	CARE A-; Positive	1)CARE A-; Stable (31-May-23) 2)CARE A-; Stable (07-Apr-23)	1)CARE A-; Stable (29-Dec-22) 2)CARE A-; Stable (06-Jul-22)	-	-
20	Debentures-Non-convertible debentures	LT	50.00	CARE A-; Positive				

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Debt-Non-convertible debenture/Subordinate debt	Complex
3	Debt-Subordinate debt	Complex
4	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

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

Contact us

Media Contact	Analytical Contacts
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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in

CRISIL Ratings

Rating Rationale

April 04, 2023 | Mumbai

Annapurna Finance Private Limited

Rating reaffirmed at 'CRISIL A-/Stable'; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.1600 Crore (Enhanced from Rs.1100 Crore)**
Long Term Rating	**CRISIL A-/Stable (Reaffirmed)**

Rs.100 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Rs.50 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Rs.50 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Rs.50 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Rs.145 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Rs.100 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Rs.40 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Rs.100 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Rs.70 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Rs.73 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Rs.30 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Rs.100 Crore Non Convertible Debentures	**CRISIL A-/Stable (Reaffirmed)**
Non Convertible Debentures Aggregating Rs.146 Crore	**CRISIL A-/Stable (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A-/Stable' rating on the long-term bank facilities and non-convertible debentures of Annapurna Finance Private Limited (Annapurna Finance).

CRISIL Ratings has also withdrawn its rating on Non-Convertible Debenture of Rs. 146 crores (See annexure 'Details of Rating Withdrawn') as CRISIL Ratings has received independent confirmation that these instruments have been redeemed. The withdrawal is in line with CRISIL Ratings withdrawal policy.

The rating continues to reflect the company's strong market position in the microfinance space in the east with long standing presence in Odisha, adequate capitalization, sound risk management and ground level practices. These rating strengths are partially offset by modest, though stabilizing, asset quality and profitability, regional concentration of operations and, inherently modest credit profile of borrowers and potential risk from local socio-political issues inherent to the microfinance sector.

The company's Assets under Management (AUM) stood at Rs 6553 crore on March 31, 2022, marking an annual growth of 36.7%. This momentum continued over the first nine months of fiscal 2023 as the AUM further increased to Rs 7964 crore as of December 31, 2022. Despite the pandemic overhang, Annapurna Finance has sustained its market position within the microfinance sector. The company's portfolio majorly comprised microfinance loans with a small, though growing share of MSME loans. As on December 31, 2022, 21.2% of the company's AUM was housed in Odisha and concentration around top 3 states was 52.0%.

In the aftermath of the pandemic, the company's asset quality had deteriorated constraining its overall profitability. However, as both asset quality and earnings have started to stabilize and, are expected to restore over fiscal 2024. On December 31, 2022, GNPA and NNPA stood at 6.9% and 2.6% respectively as against 10.1% and 2.9%, a year ago. The company did not make any write offs until March 2022 however in 9M 2023, has written off Rs 384 crore as Covid-19 related credit cost.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has evaluated the standalone business and financial risk profile of Annapurna Finance

Key Rating Drivers & Detailed Description

Strengths:

- **Strong market position in the microfinance space in eastern India with long-standing presence in Odisha**
  Annapurna Finance has retained its position of being the leading NBFC - MFI in eastern India with strong foothold in Odisha. After the slowdown imposed by the pandemic outbreak, growth started to pick up from the second quarter of fiscal 2022. On March 31, 2022, the company reported an AUM of Rs 6,553 crore registering an annual growth of 37% over the year followed by a nine monthly growth of 21.5% which led to an AUM base of Rs 7964 crore as at the end of December 31, 2022.

  Majority of the outstanding portfolio comprised microfinance loans however, the share of MSME loans – which the company started to disburse a little over a year ago – has been increasing gradually. As on December 31, 2022, the share of microfinance loans in the total AUM was 86% whereas balance 14% comprised MSME loans. Over its operational history of over two decades, the company has established a strong foothold in its core territory of Odisha which accounts for 21.2% of its AUM as on December 31, 2022. While this state still accounts for the highest share in the company's portfolio, exposing it to risks of regional concentration – there has been gradual improvement in this regard as the share of Odisha in the total AUM has reduced from >30% prior to fiscal 2020.

- **Capitalisation is adequate in relation to the scale of operations**
  Annapurna Finance's capital position is adequate in relation to its scale and nature of business, with a networth (excludes compulsorily convertible debentures) of Rs 1456 crore as on December 31, 2022. Over the last two fiscals, the company has cumulatively raised approximately Rs 638 crore of capital in multiple tranches as preference share capital which has strengthened its capital position.

  As a result, the company's adjusted gearing and overall capital adequacy ratio (CAR) stood at 5.6 times and 26.5% on December 31, 2022 respectively. The company also had a high liquidity balance as of this date and upon adjusting for it, adjusted gearing further reduces to 5.1 times. Given the idiosyncratic risks inherent in the sector, the company intends to maintain its adjusted gearing at 5.5-6 times and tier I CAR at above 20% - on a steady state basis, which is in line with CRISIL Ratings' expectations.

  The company has marquee investors like Oman India Joint Venture Investment Fund (Oman India Fund, holds 15.39% stake in the company), Asian Development Bank (ADB, holds 9.97% stake in the company) and, Belgian Investment Company for Developing Countries (Belgian Investment, holds 8.13% stake in the company) who have demonstrated track record of extending support, if need be. More so, Annapurna has demonstrated its ability to raise capital frequently over the past few quarters and the same shall help the company to sustain capitalization in the long run.

- **Sound risk management practices**
  Annapurna Finance has also strengthened its risk management practice in the last few years. The company has established an in-house geo information system to facilitate early identification of any potential issues across geographies.

  This not only enables the company to monitor asset quality performance in its existing regions but also assists in identification of newer regions with high growth potential and low risk. The model of lending through self-help groups, along with sound ground level and internal audit processes have also helped Annapurna Finance to maintain strong asset quality performance in its core geographies of Odisha and Chhattisgarh over the years in the pre-Covid scenario.

  However, considering the rapid growth in loan portfolio and significant expansion into newer geographies in the past few years, and overhang of the pandemic on borrowers' repayment behavior, asset quality performance in newer geographies remains a key monitorable.

Weakness:

- **Modest, though stabilizing, asset quality**
  Asset quality performance of Annapurna Finance has remained volatile since the pandemic outbreak. This, coupled with moderate impact of floods and allied calamities in Odisha and adjoining states where the company has presence, resulted in the company's NPAs remaining elevated over most of fiscal 2022. On March 31, 2022, the company reported GNPA and NNPA of 10.03% and 2.86% as against 7.96% and 3.65%, a year ago. The increase was attributed to slippages from the restructured portfolio over the second half of the fiscal. However, as the portfolio generated post

Covid-19 continued to perform well with increasing resolution across dpd buckets, the company's reported GNPA and NNPA improved mildly to 6.88% and 2.45% on December 31, 2022.

The company did not make any write offs during fiscal 2021 and 2022 however, in 9M 2023 – it has written of Rs 383.8 crore (adjusted for recoveries) as Covid-19 related loss and for fiscal 2023 – is expected to incur credit costs of 3.0-3.5%. For the MSME portfolio which has a vintage of about 12-16 months, the 90+ dpd stood at 3.5% on December 31, 2022 as compared to 3.9% on September 30, 2022

- **Regional concentration of operations in Odisha increases susceptibility to potential risk from local socio-political issues in the microfinance sector**
  Annapurna Finance's portfolio has been historically geographically concentrated within Odisha, which accounts for close to 21.2% of the total AUM as on December 31, 2022, although this exposure has declined from 50% levels observed in fiscal 2015. Top 3 states (Bihar, Madhya Pradesh and Odisha) account for 52.0% of the AUM as on the same date. In terms of districts, the top five districts - accounting for ~10% of the portfolio, are all located in Odisha and most of them are adjacent to each other. In a situation where ground-level issues erupt in any single district or the region is hit by a natural calamity, the probability of spill over is high and this could impact the adjoining districts as well. Taking this into cognizance, the management has been focused on improving geographical diversity and by implementing measures like capping district and state level exposures, have been able to achieve this target to some extent.

  The microfinance sector has witnessed two major disruptive events in the past decade. The first was the crisis promulgated by the ordinance passed by the Government of Andhra Pradesh in 2010 and the second was demonetisation in 2016. In addition, the sector has faced issues of varying intensity in several geographies. Promulgation of the ordinance on MFIs by the Government of Andhra Pradesh in 2010 demonstrated their vulnerability to regulatory and legislative risks. The ordinance triggered a chain of events that adversely affected the business models of MFIs by impairing their growth, asset quality, profitability, and solvency. Similarly, the sector witnessed high level of delinquencies post-demonetisation and the subsequent socio-political events. For Annapurna Finance, while the impact of demonetisation was relatively lesser as compared to other peers, it did witness marginal uptick in early bucket delinquencies as a consequence of the issues in Odisha and regional disturbance in pockets of Assam. This indicates the fragility of the business model against external risks. As the business involves lending to the poor and downtrodden sections of the society, MFIs will remain exposed to socially sensitive factors, including charging of high interest rates, and consequently, tighter regulations and legislation.

- **Profitability constrained by elevated credit losses due to Covid-19, expected to stabilize in fiscal 2024**
  Following the pandemic outbreak and its impact on asset quality, credit costs for fiscal 2021 and 2022 increased to 3.2% and 2.6% respectively, after remaining sub 1.5% previously, in the normal course of business. Resultantly, RoMA for the two years was muted at 0.03% and 0.2% respectively. Nonetheless, Annapurna Finance's operating profitability has remained stable at >2.5% historically. For 9M 2023, RoMA stood at 0.5% constrained by write offs made during the period which resulted in credit costs of 3.2%.

  Considering the company has been disbursing incremental loans at a marginally higher interest rate after removal of interest rate cap as per the revised microfinance guidelines – the net interest margins are expected to improve gradually, which would reflect in the overall RoMA for the coming quarters as well.

Liquidity: Strong
The company had a cash and bank balance (excluding scheduled collections) of Rs 1130.8 crore as on December 31, 2022 – which covered the debt obligations scheduled for repayment over the succeeding 3 months by 1.24 times. Post pandemic, the company has been maintaining a relatively higher proportion of liquid assets. Based on ALM statement dated December 31, 2022 – there were no negative mismatches in any time buckets up till 1 year.

Outlook: Stable
Annapurna Finance is expected to sustain its strong market position with adequate capitalization. The company's asset quality and profitability are also expected to restore by fiscal 2024.

Rating Sensitivity factors
Upward factors
- Improvement in scale and geographical diversity of operations with no state accounting for more than 25% of the AUM
- Sustained improvement in asset quality resulting in an improved earnings profile, with RoMA improving to and remaining above 2.5% on a steady state basis.

Downward factors
- Moderation in capital position resulting in gearing increasing to and remaining above 6 times for a prolonged period
- Deterioration in asset quality or earnings profile, leading to a stress on profitability and capital position

About the Company

AFPL was established in 2009, and is now one of the top ten NBFC-MFIs in the country. It was formed as a not-for-profit entity, Peoples Forum, an NGO which worked for the development and welfare of unserved sections of the society. The microfinance activities started with the inception of Mission Annapurna Finance under Peoples Forum from the year 2005. Mission Annapurna Finance was able to reach the interior unserved areas of Odisha through its untiring effort of addressing the economic necessities of poor women at their doorstep. As the program grew, there was an utter need to transform itself into a more streamlined entity. The gradual transformation of Mission Annapurna Finance brought forth the name Annapurna Finance Pvt Ltd (AMPL) in the year 2009. Thereafter, AMPL registered itself with the Reserve Bank of India (RBI) as an NBFC-MFI in the year 2013.

The company offers both financial and non-financial services to the resource poor, unbanked and marginalized people in rural and semi-urban areas. The services aim to meet the evolving needs of community and people who are involved in agricultural and small business activities. It has also come up with customized insurance products for its clients. AFPL uses the group lending model (SHG and JLG) where poor women guarantee each other's loans. Borrowers undergo financial literacy training and must pass a test before they are can avail loans. Monthly meetings with borrowers follow a highly disciplined approach. Re-payment rates on the Company's collateral-free loans are more than 99% because of its regular monitoring and follow up on loan utilization. The company has also systematically introduced various individual need-based products for its clients.

The company has introduced large size individual loans to provide financial assistance to the MSME segment. It has also introduced individual loans for Housing finance, catering to the affordable housing segment.

Key Financial Indicators

	Unit	December 2022	March 2022	March 2021
		IndAS	IndAS	IndAS
Assets under management	Rs crore	7964	6,553	4,793
Total income	Rs crore	1139	1153	977
Profit after tax (PAT)	Rs crore	33	17	1.8
Return on managed assets	%	0.5	0.2	0.03
GNPA	%	6.9	10.03	7.9
Adjusted gearing	Times	5.6	5.5	5.4

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
INE515Q08176	Non-convertible debentures	20-Mar-19	11.45%	20-Mar-25	70	Simple	CRISIL A-/Stable
NA	Non-convertible debentures*	NA	NA	NA	0.01	Simple	CRISIL A-/Stable
INE515Q07541	Non-convertible debentures	24-Sep-21	11%	13-Mar-25	49.99	Simple	CRISIL A-/Stable
INE515Q07400	Non-convertible debentures	22-Sep-20	11.7	22-Sep-26	100	Simple	CRISIL A-/Stable
INE515Q07327	Non-convertible debentures	15-Jul-20	11.6	21-Apr-23	100	Simple	CRISIL A-/Stable
INE515Q07293	Non-convertible debentures	16-Jun-20	NA	21-Apr-23	100	Simple	CRISIL A-/Stable
INE515Q07277	Non-convertible debentures	16-Oct-19	12.2	13-Oct-24	73	Simple	CRISIL A-/Stable
INE515Q07228	Non-convertible debentures	19-Dec-18	12.5	19-Dec-24	60	Simple	CRISIL A-/Stable

NA	Non-convertible debentures*	NA	NA	NA	5	Simple	CRISIL A-/Stable
INE515Q07251	Non-convertible debentures	20-Mar-19	12.5	20-Mar-25	70	Simple	CRISIL A-/Stable
NA	Non-convertible debentures*	NA	NA	NA	30	Simple	CRISIL A-/Stable
INE515Q08093	Non-convertible debentures	02-May-19	12.87	02-May-26	30	Simple	CRISIL A-/Stable
NA	Long-term bank facility	NA	NA	NA	1551.91	NA	CRISIL A-/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	48.09	NA	CRISIL A-/Stable

**Yet to be issued*

Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Level
INE515Q07210	Non-convertible debentures	15-Nov-18	11.53	15-Nov-22	46	Simple
INE515Q07244	Non-convertible debentures	1-Mar-19	11.8	1-Mar-23	100	Simple

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1600.0	CRISIL A-/Stable	11-01-23	CRISIL A-/Stable	13-10-22	CRISIL A-/Stable	22-09-21	CRISIL A-/Stable	12-11-20	CRISIL A-/Stable	CRISIL A-/Stable
			--		--	21-09-22	CRISIL A-/Stable		--	24-09-20	CRISIL A-/Stable	--
			--		--	07-07-22	CRISIL A-/Stable		--	21-08-20	CRISIL A-/Stable	--
			--		--	28-03-22	CRISIL A-/Stable		--	26-06-20	CRISIL A-/Stable	--
			--		--		--		--	04-06-20	CRISIL A-/Stable	--
			--		--		--		--	21-04-20	CRISIL A-/Stable	--
Non Convertible Debentures	LT	1054.0	CRISIL A-/Stable	11-01-23	CRISIL A-/Stable	13-10-22	CRISIL A-/Stable	22-09-21	CRISIL A-/Stable	12-11-20	CRISIL A-/Stable	CRISIL A-/Stable
			--		--	21-09-22	CRISIL A-/Stable		--	24-09-20	CRISIL A-/Stable	--
			--		--	07-07-22	CRISIL A-/Stable		--	21-08-20	CRISIL A-/Stable	--
			--		--	28-03-22	CRISIL A-/Stable		--	26-06-20	CRISIL A-/Stable	--
			--		--		--		--	04-06-20	CRISIL A-/Stable	--
			--		--		--		--	21-04-20	CRISIL A-/Stable	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Long Term Bank Facility	**245.77**	**ICICI Bank Limited**	**CRISIL A-/Stable**
Long Term Bank Facility	**47**	**RBL Bank Limited**	**CRISIL A-/Stable**
Long Term Bank Facility	**155**	**Standard Chartered Bank Limited**	**CRISIL A-/Stable**
Long Term Bank Facility	**34.5**	**Nabsamruddhi Finance Limited**	**CRISIL A-/Stable**

Long Term Bank Facility	31.66	Woori Bank	CRISIL A-/Stable
Long Term Bank Facility	40	Kookmin Bank	CRISIL A-/Stable
Long Term Bank Facility	22.55	DCB Bank Limited	CRISIL A-/Stable
Long Term Bank Facility	75.75	Micro Units Development and Refinance Agency Limited	CRISIL A-/Stable
Long Term Bank Facility	36.52	Mahindra and Mahindra Financial Services Limited	CRISIL A-/Stable
Long Term Bank Facility	43.75	RBL Bank Limited	CRISIL A-/Stable
Long Term Bank Facility	171	Standard Chartered Bank Limited	CRISIL A-/Stable
Long Term Bank Facility	18.42	Woori Bank	CRISIL A-/Stable
Long Term Bank Facility	67.5	RBL Bank Limited	CRISIL A-/Stable
Long Term Bank Facility	29.16	DCB Bank Limited	CRISIL A-/Stable
Long Term Bank Facility	15	Doha Bank	CRISIL A-/Stable
Long Term Bank Facility	50	Nabkisan Finance Limited	CRISIL A-/Stable
Long Term Bank Facility	47.31	UCO Bank	CRISIL A-/Stable
Long Term Bank Facility	68.98	UCO Bank	CRISIL A-/Stable
Long Term Bank Facility	252.72	ICICI Bank Limited	CRISIL A-/Stable
Long Term Bank Facility	2.09	Allahabad Bank	CRISIL A-/Stable
Long Term Bank Facility	30.37	Nabkisan Finance Limited	CRISIL A-/Stable
Long Term Bank Facility	32.38	Piramal Capital & Housing Finance Limited	CRISIL A-/Stable
Long Term Bank Facility	34.48	Mahindra and Mahindra Financial Services Limited	CRISIL A-/Stable
Proposed Long Term Bank Loan Facility	17.73	Not Applicable	CRISIL A-/Stable
Proposed Long Term Bank Loan Facility	30.36	Not Applicable	CRISIL A-/Stable

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies

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December 04, 2023

Annapurna Finance Private Limited: [ICRA]A- (Stable) assigned to Rs. 31.00-crore subordinated debt

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt	-	31.00	[ICRA]A- (Stable); assigned
Subordinated debt	76.18	76.18	[ICRA]A- (Stable); outstanding
Subordinated debt	140.00	140.00	[ICRA]A- (Stable); outstanding
Non-convertible debenture programme	447.52	447.52	[ICRA]A- (Stable); outstanding
Non-convertible debenture programme	0.12	0.12	[ICRA]A- (Stable); outstanding
Long-term bank facilities – Fund based	1,600.00	1,600.00	[ICRA]A- (Stable); outstanding
Principal protected market linked debenture	35.00	35.00	PP-MLD[ICRA]A- (Stable); outstanding
Total	**2,298.82**	**2,329.82**	

**Instrument details are provided in Annexure I*

Rationale

The ratings factor in Annapurna Finance Private Limited's (AFPL) established track record of more than two decades in the microfinance space (including microfinance lending through People's Forum, AFPL's parent organisation). The company has been able to scale up its portfolio consistently (5-year CAGR[1] of 35% till FY2023) despite the disruptions caused by the Covid-19 pandemic. The increase in the scale of operations has been aided by timely fund-raising, both equity and debt. AFPL has a diversified borrowing profile comprising funding relationships with more than 70 lenders as on September 30, 2023 and a good mix of private sector banks, public sector banks, non-banking financial companies (NBFCs) and financial institutions (FIs). However, its leverage has been increasing, given its pace of growth and subdued profitability. In ICRA's opinion, AFPL would require a capital infusion in the near term to support the envisaged growth, while maintaining a prudent capitalisation profile.

The ratings are constrained by the moderate asset quality and subdued profitability indicators due to the impact of the disruptions caused by the pandemic. The gross non-performing assets (NPAs), though declining, remained moderate at 3.2% as on September 30, 2023 compared to 4.0% as on March 31, 2023 (10.0% as on March 31, 2022). AFPL sold its NPAs to asset reconstruction companies (ARCs) in FY2023 and wrote off a sizeable portion of its portfolio in FY2023 and H1 FY2024, which helped reduce the reported NPAs. Given the provisions carried by the company, the net NPAs were lower at 1.1% as on September 30, 2023. Nevertheless, it holds investments in the security receipts (SRs) of the NPAs sold to the ARCs (1.3% of portfolio) and had a standard restructured portfolio outstanding (0.1% of portfolio) as on September 30, 2023. Going forward, AFPL's ability to arrest further slippages and recover from its delinquent customers would remain key for improving its profitability. In addition, the increasing share of the portfolio generated at high yields, after the new regulations became applicable in FY2023, would help the company expand its margins and improve its profitability.

The ratings continue to factor in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks inherent in the microfinance business. Further, there is scope for improvement in the geographical diversification of operations.

[1] Compound annual growth rate

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that AFPL will maintain a steady credit profile while expanding its scale of operations and improving its profitability from the recent lows, aided by its experienced management team, good systems and processes and diversified borrowing profile.

Key rating drivers and their description

Credit strengths

Established track record of operations – Promoted by People's Forum, a society registered in Odisha, AFPL is one of the largest NBFC-microfinance institutions (MFIs) in India by assets under management (AUM). It has an established track record of more than two decades, including microfinance lending through People's Forum, in the microfinance space. The company has been able to scale up its portfolio consistently (5-year CAGR of 35% till FY2023) despite the pandemic-led disruptions and it reported an AUM of Rs. 9,233 crore as on September 30, 2023 (Rs. 8,749 crore as on March 31, 2023; Rs. 6,553 crore as on March 31, 2022). As on September 30, 2023, it was present in 408 districts across 21 states through a network of 1,275 branches, while catering to more than 25 lakh borrowers.

Diversified borrowing profile – The company's funding base is well diversified with a good mix of private banks, public sector banks, FIs and NBFCs. As on September 30, 2023, AFPL had funding relationships with more than 70 lenders. The funding profile is diversified and comprised bank loans (42%), FIs/NBFCs (14%), NCDs (8%), external commercial borrowings (ECB; 7%), subordinated debt (4%) and direct assignment (DA; 25%) as on September 30, 2023. It raised Rs. 4,269 crore through borrowings (on-balance sheet) and Rs. 2,789 crore via DA transactions in FY2023. In H1 FY2024, AFPL raised Rs. 3,228 crore through borrowings and continues to maintain a healthy pipeline of funds to support its growth plans.

Credit challenges

Subdued profitability owing to elevated credit costs – The company's net interest margin improved to 8.7% of average managed assets (AMA) in FY2023 from 7.4% in FY2022 as it increased its lending rates in light of the revised microfinance regulations. Nevertheless, the profitability indicators remained subdued in FY2022 and FY2023, given the deterioration in the asset quality and the elevated credit costs. The credit costs stood at 3.6% of AMA in FY2023 compared to 2.4% in FY2022. Further, with continuous branch expansion and the hiring of employees, the operating expenses increased to 4.9% of AMA in FY2023 from 4.7% in FY2022. AFPL reported a net profit of Rs. 33 crore in FY2023, translating into a return of 0.3% on AMA and 2.1% on average net worth compared to Rs. 17 crore, 0.2% and 1.4%, respectively, in FY2022. It reported a net profit of Rs. 104 crore in H1 FY2024, translating into an annualised return of 1.9% on AMA and 12.4% on average net worth. AFPL's ability to control its credit costs and improve its profitability will be important from a credit perspective.

Increasing leverage, given high pace of growth – AFPL has a strong investor base, which has helped it scale up its operations while maintaining adequate capitalisation. The company raised Rs. 259 crore through compulsorily convertible preference shares (CCPS) and Rs. 150 crore through compulsorily convertible debentures (CCDs) in FY2022, and Rs. 117 crore through CCPS in FY2023. This helped support its capitalisation profile to some extent despite the subdued profitability and the pace of growth. The managed gearing[2] increased to 5.1 times (reported gearing at 3.8 times) as on September 30, 2023 (managed gearing at 5.6 times and reported gearing at 4.1 times as on March 31, 2023) from 4.8 times (reported gearing at 3.8 times) as on March 31, 2022. The capital adequacy ratio remained adequate at 24.8% as on September 30, 2023 (24.7% as on March 31, 2023; 29.8% as on March 31, 2022). In ICRA's opinion, AFPL would require a capital infusion in the near term to support the envisaged growth, while maintaining a prudent capitalisation profile.

Political, communal, and other risks in microfinance sector, given the marginal borrower profile – Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Further, political

[2] Managed gearing = On-book debt + Off-book portfolio/Net worth (including CCDs and CCPS)

and operational risks associated with microfinance may result in high volatility in the asset quality indicators. The microfinance industry is prone to socio-political, climatic and operational risks, which could negatively impact its operations. AFPL's ability to onboard borrowers with a good credit history, recruit and retain employees as well as improve the geographical diversity of its operations would be key for managing high growth rates while maintaining its credit profile.

Liquidity position: Adequate

As on September 30, 2023, the company had a free cash and bank balance as well as liquid investments of Rs. 653 crore and scheduled inflows from advances (excluding interest) of Rs. 4,238 crore against scheduled debt repayments (excluding interest) of Rs. 3,388 crore during October 01, 2023 to September 30, 2024. Factoring in the expected collections from advances, the liquidity profile is adequate for meeting the debt obligations in a timely manner. As per the asset-liability management (ALM) profile as on September 30, 2023, AFPL had no cumulative mismatches for at least one year even under a stressed scenario with the collection efficiency assumed at 80%. However, given the company's growth plans, it would require additional funding to support the envisaged disbursements.

Rating sensitivities

Positive factors – An improvement in AFPL's asset quality and profitability indicators with a return on average managed assets (RoMA) of more than 2.5%, while maintaining a prudent capitalisation profile with a managed gearing of less than 5 times on a sustained basis, could positively impact the ratings.

Negative factors – Pressure on the ratings could arise if the company witnesses further deterioration in its asset quality, which could affect its profitability. The weakening of the capitalisation profile with a managed gearing of more than 6 times or a stretched liquidity position could also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Annapurna Finance Private Limited (AFPL), formerly known as Annapurna Microfinance Private Limited (AMPL), is promoted by People's Forum, a society registered in Odisha. People's Forum has been engaged in various socio-economic development programmes, including microfinance, since 1990. In November 2009, People's Forum acquired an NBFC, Gwalior Finance and Leasing Company Private Limited, which was renamed AMPL in February 2010.

AFPL provides microcredit for mostly income-generating activities to women borrowers using the group lending model. It also offers other products such as home and home improvement loans, consumer durable loans, corporate loans, etc. As on September 30, 2023, AFPL was catering to more than 25 lakh borrowers through a network of 1,275 branches spread across 408 districts in 21 states, while managing a portfolio of Rs. 9,233 crore.

Key financial indicators (audited)

Annapurna Finance Private Limited	FY2021	FY2022	FY2023	H1 FY2024
Accounting as per	**IndAS**	**IndAS**	**IndAS**	**IndAS**
Total income	977	1,153	1,570	972
Profit after tax	2	17	33	104
Net worth (including CCD & CCPS)	991	1,454	1,629	1,717
Gross AUM	4,793	6,553	8,749	9,233

Annapurna Finance Private Limited	FY2021	FY2022	FY2023	H1 FY2024
Accounting as per	IndAS	IndAS	IndAS	IndAS
Total managed assets	6,754	8,983	11,184	11,019
Return on average managed assets	0.0%	0.2%	0.3%	1.9%
Return on average net worth	0.2%	1.4%	2.1%	12.4%
Managed gearing (times)	5.5	4.8	5.6	5.1
Reported gearing (times)	4.7	3.8	4.1	3.8
Gross NPA	7.3%	10.0%	4.0%	3.2%
Net NPA	3.0%	2.9%	1.5%	1.1%
Capital / Risk-weighted assets	27.7%	29.8%	24.7%	24.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; Total managed assets = (Total assets + Impairment allowance + Assigned portfolio)

Status of non-cooperation with previous CRA: Not applicable

Any other information: AFPL also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure.

Rating history for past three years

	Instrument	Current Rating (FY2024)								Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep-30-2023* (Rs. crore)	Date & Rating in FY2024					Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021
					Dec-xx-2023	Nov-07-2023	Sep-28-2023	Aug-22-2023	Jul-20-2023	Mar-23-2023	Dec-14-2022 Oct-31-2022 Oct-12-2022 Sep-22-2022	Jul-22-2022	Dec-16-2021 Aug-05-2021	Dec-21-2020 Nov-16-2020 Aug-19-2020 Aug-04-2020 Jul-27-2020 May-22-2020
1	Long-term bank facilities – Fund based	Long term	1,600.00	1,591	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Non-convertible debentures	Long term	356.56	258.10	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	Non-convertible debentures	Long term	-	-		-	[ICRA]A-(Stable); withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
4	Non-convertible debentures	Long term	37.26	37.26	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-	-	-
5	Non-convertible debentures	Long term	53.82	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-	-	-	-	-	-
6	Subordinated debt	Long term	-	-	-	-	-	-	[ICRA]A-(Stable); withdrawn	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
7	Principal protected market linked debenture	Long term	35.00	35.00	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	PP-MLD [ICRA]A-(Stable)	-	-	-

	Instrument	Current Rating (FY2024)								Chronology of Rating History for the Past 3 Years				
					Date & Rating in FY2024					Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep-30-2023* (Rs. crore)	Dec-xx-2023	Nov-07-2023	Sep-28-2023	Aug-22-2023	Jul-20-2023	Mar-23-2023	Dec-14-2022 Oct-31-2022 Oct-12-2022 Sep-22-2022	Jul-22-2022	Dec-16-2021 Aug-05-2021	Dec-21-2020 Nov-16-2020 Aug-19-2020 Aug-04-2020 Jul-27-2020 May-22-2020
8	Subordinated debt	Long term	20.00	20.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-	-
9	Subordinated debt	Long term	100.00	60.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-	-	-
10	Subordinated debt	Long term	96.18	60.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-	-	-	-
11	Subordinated debt	Long term	3.82	-	-	[ICRA]A- (Stable); withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-	-	-	-
12	Subordinated debt	Long term	31.00	-	[ICRA]A- (Stable)	-	-	-	-	-	-	-	-	-

**Source: Company*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Principal protected market linked debentures	Complex
Non-convertible debentures	Simple
Subordinated debt	Simple
Long-term bank facilities – Fund based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term bank facilities – Fund based**	Mar-2020 to Mar-2023	Not available	Not available	1,600.00	[ICRA]A- (Stable)
INE515Q08069	**NCD***	Mar-27-2018	13.50%	Sep-27-2023	15.00	[ICRA]A- (Stable)
INE515Q07475	**NCD[1]**	Dec-21-2020	12.00%	Dec-18-2023	27.50	[ICRA]A- (Stable)
INE515Q07558	**NCD**	Dec-20-2021	11.30%	Dec-20-2026	63.30	[ICRA]A- (Stable)
INE515Q07574	**NCD**	Jul-20-2022	10.85%	Jul-29-2025	22.00	[ICRA]A- (Stable)
INE515Q08184	**NCD***	Sep-21-2022	11.25%	Sep-27-2023	35.00	[ICRA]A- (Stable)
INE515Q08192	**NCD[2]**	Sep-21-2022	12.20%	Sep-26-2024	60.00	[ICRA]A- (Stable)
INE515Q07590	**NCD**	Oct-14-2022	10.95%	Oct-19-2027	46.00	[ICRA]A- (Stable)
INE515Q08200	**NCD**	Nov-03-2022	10.00%	Jul-08-2026	40.76	[ICRA]A- (Stable)
INE515Q07608	**NCD**	Nov-03-2022	10.90%	Nov-04-2027	46.88	[ICRA]A- (Stable)
INE515Q08234	**NCD**	Sep-11-2023	11.90%	Sep-13-2027	37.26	[ICRA]A- (Stable)
INE515Q07624	**NCD**	Nov-02-2023	12.00%	Nov-02-2029	53.82	[ICRA]A- (Stable)
To be issued	**NCD**	-	-	-	0.12	[ICRA]A- (Stable)
INE515Q07582	**PP-MLD**	Sep-27-2022	BSE SENSEX	Oct-31-2025	35.00	PP-MLD[ICRA]A- (Stable)
INE515Q08218	**Sub-debt**	Mar-24-2023	13.10%	Aug-29-2028	20.00	[ICRA]A- (Stable)
INE515Q08226	**Sub-debt**	Jul-28-2023	12.40%	Apr-24-2029	60.00	[ICRA]A- (Stable)
INE515Q08226	**Sub-debt**	Aug-23-2023	12.40%	Apr-24-2029	60.00	[ICRA]A- (Stable)
To be issued	**Sub-debt**	-	-	-	76.18	[ICRA]A- (Stable)
To be issued	**Sub-debt**	-	-	-	31.00	[ICRA]A- (Stable)

**Instrument matured/redeemed*

[1]*Partially redeemed; amount outstanding was Rs. 9.17 crore as of Sep 2023*

[2]*Partially redeemed; amount outstanding was Rs. 30 crore as of Sep 2023*

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

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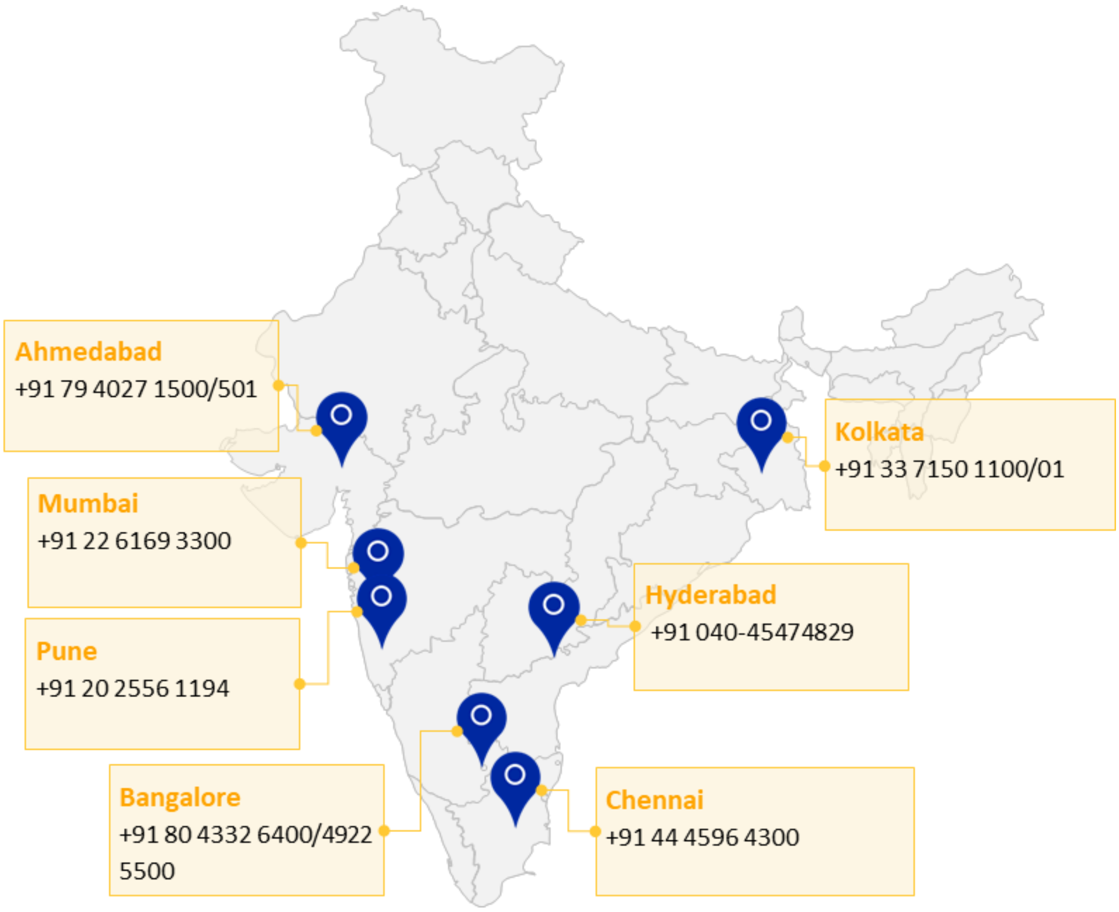

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