



September 22, 2010

## ICRA assigns LBBB- (stable) rating to the bank limits of ASA International India Microfinance Private Limited

ICRA has assigned an LBBB- (pronounced L triple B minus) rating to the Rs 300 cr. long-term bank loans of ASA International India Microfinance Private Limited (ASAI-India)<sup>†</sup>. The rating carries a 'stable' outlook. The rating factors in funding and management support ASAI India receives from ASA International and ASA Bangladesh. While ASA Bangladesh has long & proven track record of microfinance operations in Bangladesh and provides operational support to ASAI India; ASAI India receives funding support from ASA International through Catalyst Microfinance Investors (CMI), a social investment fund. The rating also takes into account the company's strong capitalization levels, committed capital support from parent over the next two years, comfortable liquidity position and adequate risk-adjusted returns. The rating remains constrained on account of ASAI India's limited track record in Indian operations, high growth plans in the medium term, geographical concentration of portfolio in West Bengal, risks associated with the unsecured lending business, marginal credit profile of borrowers and operational risks arising out of cash handling. These risks are partially mitigated on account of company's prudent business model as per which loans are only for income-generating purpose, restriction on top-up loans to prevent ever-greening of portfolio, focus on under-penetrated areas to avoid risk of over-leveraging, fixed salary structure of employees to prevent mis-selling of loans and in-built holiday period in loan products to help borrowers to meet cash flow exigencies. However, given the high growth plans of the company, in ICRA's opinion, it would be important for the company to recruit and train personnel (at a high pace) and to strengthen its internal audit and MIS / IT<sup>1</sup> systems, which are still in the evolving stage. It would also be equally important for the company to understand and manage the political risks in the relatively new geographical areas (new state or district) to maintain a strict control on asset quality.

The company would need additional capital in future to fund its growth plans and plans to maintain a maximum leveraging of five times in the medium term; any substantial deviation in the capitalization levels from this level or deterioration in asset quality could lead to a change in credit profile of the company. Although concerns on capitalization are low over medium term as ASAI needs to bring in additional equity of \$42.5 million (around Rs. 198 crore) after its next capital infusion expected for later this year in order to comply with FEMA norms. At the same time, ability to manage high pace of growth, better geographical spread and track record in managing asset quality and earnings while expanding in new geographical areas could lead to an improvement in the credit profile of the company.

### Company Background

#### About ASAI India

ASA International India Microfinance Private Limited (formerly name Dilkusha Hire Purchase Pvt. Ltd - DHPPL) is an indirect subsidiary of ASA International (ASAI)<sup>2</sup>. ASAI took over DHPPL in June 2008 and renamed it ASAI India by acquiring entire share capital; there after ASAI infused \$7.5 million (around Rs.31.5 crore) in ASAI India. As per the terms of share purchase agreement, all assets and liabilities except share capital and bank balances have been retained by previous owners and the new management started their microfinance business from July-2008. ASAI India has its corporate office in Kolkata and has 181 branches as on March 31, 2010 with entire branch network concentrated in West Bengal. For 2009-10, the company reported PAT (Profit After Tax) of Rs.4.19 cr. on an asset base of Rs.112.6 cr. as compared to PAT of Rs.1.35 cr. on an asset base of Rs.38.02 cr. for the previous financial year. For quarter ended June 30, 2010, the company reported a PAT of Rs. 1.65 crore as

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

<sup>1</sup> MIS – Management Information Systems; IT – Information Technology

<sup>2</sup> ASAI India is 25% owned by Pro-swift (which is 100% subsidiary of ASAI) and 75% by ASAI

### PRESS RELEASE

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compared to Rs. 2.08 crore during the corresponding quarter of the previous financial year, registering a decline of 20.5% (y-o-y). As on March 31, 2010, the company reported capital adequacy of 47.12% (constitute entirely of Tier-1 capital) and Gross NPA% of 0.29%.

**Share Holding Pattern of ASAI India as on March 31, 2010**

| Share Holders                   | shareholding | Profile   |
|---------------------------------|--------------|---|
| ASA International Holding       | 74.996%      | Promoter  |
| Proswift Consultancy Pvt. Ltd.  | 24.996%      | Promoter; 100% owned by ASAI                      |
| Kalyan Mitra                    | 0.004%       | Managing Director - ASAI India                    |
| Anawarul Haque Choudhury.       | 0.001%       | Nominee of ASA International Holding              |
| Dirk Brouwer                    | 0.001%       | Chairman - ASAI India and Founder & MD of Sequoia |
| Martijn Bollen                  | 0.001%       | Nominee of ASA International Holding.             |
| Catalyst Microfinance Investors | 0.001%       | Investment Fund                                   |

**About ASA International, ASA Bangladesh and Catalyst Microfinance Investors**

ASAI was incorporated in April-2007 in Netherlands and is managed by ASA in Bangladesh and Sequoia in Netherlands. ASA is among the top 3 MFIs in Bangladesh with an outreach of 55 lakh clients in the region and over three decades of experience in microfinance operations. ASA provides technical assistance and soft loans to the NGOs/MFIs for implementing microfinance programs. Sequoia is an international corporate finance advisory and private equity firm and provides equity capital support through its social investment fund – Catalyst Microfinance Investors (CMI). CMI's investors include specialized investment funds, pension funds, institutional investors and high net-worth individuals. ASAI is 100% owned by Catalyst Microfinance Investors (CMI) and is CMI's primary investment vehicle, as per which almost all of CMI's resources are exclusively committed for investment in ASAI's MFIs around the world. Apart from India, ASAI currently operates in 7 other countries of Asia and Africa and is planning to add China and Indonesia over the next two years.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

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