January 03, 2024(Revised)

ASA International India Microfinance Limited: Rating downgraded and outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities – Term loans	400.00	400.00	[ICRA]BB (Stable); downgraded from [ICRA]BB+ (Negative)
Non-convertible debentures	114.46	114.46	[ICRA]BB (Stable); downgraded from [ICRA]BB+ (Negative)
Total	**514.46**	**514.46**	

**Instrument details are provided in Annexure I*

Rationale

The rating action reflects the weakening of ASA International India Microfinance Limited's (ASA India) credit profile, reflected by the decline in its scale of operations and the persisting pressure on its asset quality and profitability, given the high level of delinquencies and write-offs. The company's assets under management (AUM) declined by around 10% (annualised) to Rs. 374 crore as on September 30, 2023 from Rs. 394 crore as on March 31, 2023. The gross non-performing assets (GNPAs) increased to 27.7%, as on March 31, 2023, because of slippages from the restructured book and the decrease in the portfolio base. ICRA notes that the GNPAs decreased in H1 FY2024, though this was on account of the sizeable write-offs, which impacted the profitability.

ICRA further notes that after reporting a sizeable loss of Rs. 133 crore in FY2022, the company's profitability improved in FY2023 on account of recoveries from written-off accounts and tax adjustments (relating to deferred tax and prior period items), though the same remains subdued. ASA India reported a profit after tax (PAT) of Rs. 16 crore, a return on average managed assets (RoMA) of 2.0% and a return on equity (RoE) of 56.9% in FY2023. In H1 FY2024, the profitability was supported by the recognition of sizeable income as recoverable from the Government of Assam (GoA), though the recovery and/or the timing of the same remains uncertain. Any delay and/or lower-than-anticipated recoveries from the GoA or from other overdue accounts can impact the profitability and the net worth base.

The rating also takes into consideration the limited funds raised by the company in the last 2-3 fiscals, given the high risk aversion of lenders, which restricted its ability to grow its on-book portfolio. However, ICRA notes that ASA India raised funds from National Scheduled Castes Finance and Development Corporation (NSFDC) in FY2023 and external commercial borrowing of $1 million from the parent, i.e. ASA International Holding, in H1 FY2024. Further, NSFDC has given additional sanction to the company in Q3 FY2024.

The rating also remains constrained by the high geographical concentration with the top 3 states, namely West Bengal, Bihar and Tripura, constituting 93% of the portfolio as on September 30, 2023 (90% as on March 31, 2023). Moreover, it factors in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile that is susceptible to income shocks, and the political and operational risks associated with microlending, which may lead to volatility in the asset quality indicators.

The rating, however, continues to factor in the strength derived by the company due to technical and managerial support from its parent (ASA International Holding, which is a part of ASA International Group plc) and its equity partner, IDFC First Bank (9.99% stake as on September 30, 2023). Additionally, ASA India has been able to maintain and grow its relationship with business correspondent (BC) partners as reflected in the growth seen in its BC portfolio. Going forward, the company's ability to maintain/expand its BC book and grow its on-book portfolio will be important for its credit profile.

The Stable outlook reflects ICRA's expectation that the company will be able to maintain a steady credit profile, supported by its plan to increase its BC portfolio and grow its AUM. Moreover, the expected recoveries from its written-off accounts and the GoA would support its profitability and capitalisation profile, going forward.

Key rating drivers and their description

Credit strengths

Steady BC relationships supporting operations – ASA India has a long-standing relationship with IDFC First Bank Limited under its BC operations with a first loss default guarantee (FLDG) requirement of 5%. It also entered into a BC arrangement with Jana Small Finance Bank in FY2023 and Fincare Small Finance Bank in H1 FY2024 with no limit on disbursements and an FLDG requirement of 5%. Driven by these new partnerships, the BC portfolio increased to Rs. 289 crore as on September 30, 2023 from Rs. 217 crore as on March 31, 2023 (Rs. 280 crore as on March 31, 2022). ICRA takes notes of the company's plan to increase the number of BC partners and increase its disbursements under its BC operations further and grow its AUM.

Credit challenges

Decline in AUM and weak asset quality and profitability – ASA India's gross AUM declined by ~10% (annualised) in H1 FY2024 to Rs. 374 crore as on September 30, 2023 from Rs. 394 crore as on March 31, 2023 (48% decline in FY2023 from Rs. 759 crore as on March 31, 2022). The decline was attributable to lower disbursements because of limited fund-raising by the company, given the high risk aversion of lenders, and also due to the management's strategic decision to go slow on disbursements.

The company's asset quality deteriorated during the Covid-19 pandemic, which kept its GNPAs elevated despite the sizeable write-offs undertaken in FY2022. Further slippages from the restructured book and the decline in the portfolio base led to an increase in the GNPAs in FY2023 to 27.7% as on March 31, 2023. In H1 FY2024, ASA India took high write-offs, which helped it reduce its reported GNPAs, though this impacted its profitability. The profitability in H1 FY2024 was supported by the recognition of recoverable from GoA as income. Nevertheless, the actual receipt of funds from the GoA and the company's ability to contain fresh slippages and make recoveries from overdue accounts will remain monitorable.

Weak capitalisation profile – The company reported losses for two consecutive years in FY2021 and FY2022, which led to a decline in its net worth to Rs. 20 crore and an increase in its reported gearing to 31.6 times as on March 31, 2022. ASA India reported a CRAR of 5.73% as on March 31, 2022, breaching the minimum regulatory requirement of 15%. However, with the company reporting a profit in FY2023 and H1 FY2024 and with the decline in risk-weighted assets (RWAs), the CRAR improved to 23.92% and the on-book gearing declined to 5.99 times as on September 30, 2023. Nevertheless, the sustenance of profitability and improvement in the net worth base hinge upon the quantum and timing of receipts from the GoA. Any delay or lower-than-anticipated recoveries would adversely impact the profitability and net worth base.

Geographically concentrated operations – The company had a presence in 57 districts across 7 states through a network of 267 branches as on September 30, 2023. However, the share of the portfolio in West Bengal remained high at 55% as on September 30, 2023, though the same declined from 63% as on March 31, 2023 because of the rundown of the portfolio. The top 3 states comprised 93% of the portfolio as on September 30, 2023 (90% as on March 31, 2023; 91% as on March 31, 2022). ICRA notes that the company intends to reduce its geographical concentration and has expanded its operations in Bihar. Going forward, ASA India's ability to diversify its operations geographically will remain important from a credit perspective.

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 any income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Further, political 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. ASA India'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 maintaining its credit profile.

Liquidity position: Adequate

As on September 30, 2023, the company had a free cash and bank balance of Rs. 33 crore against scheduled debt obligations of Rs. 77 crore till March 31, 2024. Factoring in the estimated collections from advances, the liquidity profile is expected to remain adequate to meet the debt obligations in a timely manner. However, given the company's growth plans, it would require additional funding to support the envisaged disbursements. ASA India's ability to raise fresh funds in a timely manner will be important from a liquidity perspective.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if ASA India is able to scale up its operations while improving its asset quality, profitability and capitalisation profile.

Negative factors – Pressure on the company's rating could arise if it is unable to arrest further slippages, which could impact its profitability on a sustained basis. A further decline in its scale of operations and/or further deterioration in the capitalisation profile on a sustained basis could also exert pressure on the rating.

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

ASA International India Microfinance Limited (ASA India) is a subsidiary of ASA International Holdings, Mauritius. ASA International Group plc is listed on the London Stock Exchange. ASA India started its microfinance operations in July 2008. Its corporate and registered office is in Kolkata (West Bengal). ASA India's lending model is based on individual liability without any group guarantee mechanism. As on September 30, 2023, it operated through a network of 267 branches, spread across 57 districts in 7 states in India.

Key financial indicators

ASA International India Microfinance Limited	FY2021	FY2022	FY2023	H1 FY2024
As per	IGAAP	IGAAP	IGAAP	IGAAP
	Audited	Audited	Audited	Provisional
Net interest income	88.1	98.8	41.9	18.3
Profit after tax	(62.4)	(132.6)	16.0	2.0
Net worth	152.8	20.1	36.1	38.2
Gross loan portfolio	1,314.7	758.7	393.9	374.1
Total managed assets	1,646.7	1,018.6	560.6	592.1
Return on average managed assets	-3.9%	-10.0%	2.0%	0.7%
Return on average net worth	-33.9%	-153.4%	56.9%	11.0%
Reported gearing (times)	6.7	31.6	7.2	6.0
Managed gearing (times)	9.0	45.5	13.2	13.6
Gross NPA	19.6%	10.0%	27.7%	5.7%
Net NPA	13.5%	2.7%	15.1%	0.6%

ASA International India Microfinance Limited	FY2021	FY2022	FY2023	H1 FY2024
As per	IGAAP	IGAAP	IGAAP	IGAAP
	Audited	Audited	Audited	Provisional
Solvency (Net NPA/Net worth)	78.5%	60.3%	62.9%	1.4%
CRAR	19.3%	5.7%	15.2%	23.9%

Managed gearing = (On-book borrowings + Off-book portfolio)/ Net worth
Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: ASA India 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 rating would face pressure. However, ICRA notes that ASA India has received waivers/no action letters from some of its lenders upon the breach of covenants in the last three years.

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 of Sep 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	
					Jan 3, 2024	Jan 4, 2023	May 31, 2022; Jun 23, 2022	Jun 04, 2021	Dec 30, 2020	Oct 22, 2020 Jul 01, 2020
1	Term loans	Long term	400.00	40.14	[ICRA]BB (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
2	NCDs	Long term	114.46	109.9	[ICRA]BB (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
3	NCDs	Long term	263.00	-	-	[ICRA]BB+ (Negative); withdrawn	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term term loan	Simple
NCD programme	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	May 2018 to Jun 2023	5.00-14.25%	Dec 2023 to Jun 2026	40.14	[ICRA]BB (Stable)
NA	**Term loan – Proposed**	NA	NA	NA	359.86	[ICRA]BB (Stable)
INE746T07116	**NCD 1**	Jul-14-20	12.39%	Jul-14-25	34.88	[ICRA]BB (Stable)
INE746T08015	**NCD 2**	Dec-22-20	16.67%	Jan-22-28	75.00	[ICRA]BB (Stable)
NA	**NCD – Proposed**	NA	NA	NA	4.58	[ICRA]BB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

Corrigendum

Document dated January 3, 2024 has been corrected with revisions as detailed below:

- Standalone approach has been added in analytical approach on page number 3
- Link to the methodology of non-banking finance companies has been updated on page number 3

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About ICRA Limited:

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