

January 19, 2024

ASA International India Microfinance Limited: Rating reaffirmed; rated limit reduced for bank facilities programme; rating simultaneously withdrawn for Rs. 4.58-crore NCD programme

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	29.69	[ICRA]BB (Stable); reaffirmed and rated limit reduced
Non-convertible debentures	109.88	109.88	[ICRA]BB (Stable); reaffirmed
Non-convertible debentures	4.58	0.00	[ICRA]BB (Stable); reaffirmed and withdrawn
Total	514.46	139.57	

*Instrument details are provided in Annexure I

Rationale

The rating factors in ASA International India Microfinance Limited's (ASA India) weakened 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.

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. NSFDC provided an 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 Limited (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, ICRA notes that the company continues to get recoveries from its written-off/delinquent accounts, which, along with the expected recoveries from the GoA, would support its profitability and capitalisation profile, going forward.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 4.58-crore non-convertible debenture (NCD) programme at the request of the company with no amount outstanding against the same, in accordance with ICRA's policy on the withdrawal of credit ratings.

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 GNPA's 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 GNPA's in FY2023 to 27.7% as on March 31, 2023. ASA India took high write-offs in H1 FY2024, which helped it reduce its reported GNPA's, though this impacted its profitability. The profitability in H1 FY2024 was supported by the recognition of recoveries from the 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 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.

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. The share of the portfolio in West Bengal remained high at 55% as on September 30, 2023, though it 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 Policy on Withdrawal of Credit Ratings
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%
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 Dec 31, 2023 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	
					Jan 19, 2024	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	29.69	29.69	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
2	NCDs	Long term	109.88	109.88	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
3	NCDs	Long term	4.58	-	[ICRA]BB (Stable); withdrawn	[ICRA]BB (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
4	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-18 to Mar-23	5.00% - 14.25%	May-25 to Jun-25	29.69	[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); withdrawn

Source: Company

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

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545 307
sachin.sachdeva@icraindia.com

Arpit Agarwal
+91 124 4545 873
arpit.agarwal@icraindia.com

Prateek Mittal
+91 33 7150 1132
prateek.mittal@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 2433 1084
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.