June 07, 2024

ASA International India Microfinance Limited: Rating downgraded to [ICRA]D

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities – Term loans	29.69	29.69	[ICRA]D; Downgraded from [ICRA]BB (Stable)
Non-convertible debentures	109.88	109.88	[ICRA]D; Downgraded from [ICRA]BB (Stable)
Total	**139.57**	**139.57**	

**Instrument details are provided in Annexure I*

Rationale

The rating downgrade factors in the stress in ASA International India Microfinance Limited's (ASA India) liquidity position. The no default statement (NDS) received by ICRA on June 05, 2024 for April and May 2024 indicated the rescheduling of some of the debt obligations. ICRA also notes that the company's partially guaranteed non-convertible debentures (NCDs) are being serviced by the guarantor at present. These NCD repayments were preponed due to covenant breach(es), waiver for which was received from investor post acceptance of the preponed/revised repayment schedule. The company was unable to make these payments as per the preponed/revised repayment schedule. ICRA expects ASA India's liquidity to remain under pressure in view of its modest on-balance sheet liquidity at present (~Rs. 2 crore). Moreover, its financial flexibility would remain weak in view of the above-mentioned developments.

As on September 30, 2023, the assets under management (AUM) declined to Rs. 374 crore from Rs. 759 crore as on March 31, 2022. This was due to lower disbursements because of limited fund-raising by the company, and the management's strategic decision to go slow on disbursements. The company's asset quality deteriorated during the Covid-19 pandemic, which kept its gross non-performing assets (NPAs) 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 gross NPAs 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 gross NPAs, though this impacted its profitability. 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. Going forward, the actual receipt of funds from the GoA and the company's ability to contain fresh slippages and achieve recoveries from overdue accounts remain key monitorables.

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 business correspondent (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 (now AU Small Finance Bank Limited) in H1 FY2024 with an FLDG requirement of 5%. Driven by these new partnerships, the BC portfolio increased to Rs. 371 crore as on March 31, 2024 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 raise its disbursements under its BC operations further and grow its AUM.

Credit challenges

Rescheduling of debt and stressed liquidity profile – The NDS received by ICRA on June 05, 2024 for April and May 2024 indicated rescheduling of some debt obligations. Further, the company's debt obligations were preponed by one of its lenders due to covenant breach(es), waiver for which was received from investor post acceptance of the preponed/revised repayment schedule. The company was unable to make the payment as per the preponed/revised repayment schedule. ASA India's liquidity is expected to remain under pressure in view of its modest on-balance sheet liquidity at present (~Rs. 2 crore). ICRA notes that the company is expecting ~Rs. 1.9 crore monthly in the form of BC fees from its BC partners. Additionally, management is expecting Rs. 2 -2.2 crore through recoveries each month from written-off portfolio. Nevertheless, its financial flexibility would remain weak in view of the above-mentioned developments.

Weak financial profile – 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). This was due to lower disbursements because of limited fund-raising by the company, and the management's strategic decision to go slow on disbursements.

The company's asset quality deteriorated during the pandemic, which kept its gross NPAs 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 gross NPAs 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 gross NPAs, though this impacted its profitability. The profitability 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 achieve recoveries from overdue accounts will remain monitorables.

Liquidity position: Poor

ASA India's liquidity profile is poor given the modest on-book liquidity (~Rs. 2 crore), rescheduling of debt obligations and weak financial flexibility. ICRA notes that the company's partially guaranteed non-convertible debentures (NCDs) are being serviced by the guarantor at present. These NCD repayments were preponed due to covenant breach(es) and the company was unable to make these payments as per the preponed/revised repayment schedule. As per the asset-liability mismatch (ALM) statement as on March 31, 2024, the company had scheduled inflows from advances of Rs. 53 crore against scheduled debt repayments of Rs. 51 crore till March 31, 2025. ICRA notes that the company is expecting ~Rs. 1.9 crore monthly in the form of BC fees from its BC partners. Additionally, management is expecting Rs. 2 -2.2 crore through recoveries each month from written-off portfolio. Nevertheless, its financial flexibility would remain weak in view of the above-mentioned developments.

Rating sensitivities

Positive factors – ICRA could upgrade ASA India's rating if there is an improvement in its liquidity profile along with a track record of timely debt servicing.

Negative factors – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Policy on Default Recognition
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
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%
Managed gearing (times)	9.0	45.5	13.2	13.6
Gross NPA	19.6%	10.0%	27.7%	5.7%
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 for other loans, given the debt preponed by one of the lenders and the weakening of its liquidity profile.

Rating history for past three years

	Instrument	Current Rating (FY2025)				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 FY2025	Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022
					Jun 07, 2024	Jan 19, 2024	Jan 3, 2024	Jan 4, 2023	May 31, 2022; Jun 23, 2022	Jun 04, 2021
1	Term loans	Long term	29.69	29.69	[ICRA]D	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
2	NCDs	Long term	109.88	109.88	[ICRA]D	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
3	NCDs	Long term	-	-	-	[ICRA]BB (Stable); withdrawn	[ICRA]BB (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)
4	NCDs	Long term	-	-	-	-	-	[ICRA]BB+ (Negative); withdrawn	[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	Coupon Rate	Maturity	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]D
INE746T07116	**NCD 1**	Jul-14-20	12.39%	Jul-14-25	34.88	[ICRA]D
INE746T08015	**NCD 2**	Dec-22-20	16.67%	Jan-22-28	75.00	[ICRA]D

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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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

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