

ASA International India Microfinance Limited

December 05, 2018

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	0.00	52.00	[ICRA]BBB (Stable); assigned
Term Loan	700.00	700.00	[ICRA]BBB (Stable); outstanding
Non-convertible Debenture Programme	52.50	52.50	[ICRA]BBB (Stable); outstanding
Non-convertible Debenture Programme	45.00	45.00	[ICRA]BBB (Stable); outstanding
Total	797.50	849.50	

Rating action

ICRA has assigned a rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 52.00-crore non-convertible debenture (NCD) programme of ASA International India Microfinance Limited (ASA). The outlook on the long-term rating is Stable. ICRA also has a rating outstanding of [ICRA]BBB (Stable) on the Rs. 700-crore bank lines programme and the Rs. 97.50-crore NCD programme of the company.

Rationale

The rating factors in ASA's experienced management team, the technical and managerial support from its promoters (ASA International and ASA Bangladesh) and equity partner, IDFC Bank (which held a 9.99% stake as on September 30, 2018) as well as its robust systems and processes for loan monitoring and collections and good profitability indicators (return on equity (RoE) of 32.03% in H1 FY2019, as per unaudited financials). Overall, ASA's asset quality remained good with 0+ dpd at 0.85% as on September 30, 2018.

The rating is constrained by the company's moderate scale and geographically concentrated operations with 61% (31% own portfolio and 30% business correspondent (BC) portfolio) of the portfolio, as on September 30, 2018, being in West Bengal and the top 10 districts accounting for 55% of the portfolio. The rating is also constrained by the moderate capitalisation indicators with first loss default guarantee (FLDG) adjusted gearing (on-book borrowings/net worth less FLDG) of 5.28 times as on September 30, 2018. Given the high pace of growth, regular flow of capital would be required to maintain capitalisation at adequate levels. ICRA notes that ASA's loans are individual exposures without any group guarantees, in line with the ASA methodology worldwide.

Outlook: Stable

ICRA believes that ASA will continue to receive technical, managerial and capital support from its parents (ASA International and ASA Bangladesh). The outlook may be revised to Positive if a substantial improvement in the capital structure strengthens the company's financial risk profile. The outlook may be revised to Negative in case of a deterioration in the capitalisation profile or the asset quality indicators.

Key rating drivers

Credit strengths

Good asset quality indicators – ASA’s overall asset quality remained good with 0+ dpd reducing to 0.85% as on September 30, 2018 from 1.16% as on June 30, 2018. Adequate provisioning led to a good solvency profile (Net NPA/Net worth of 0.69% as on September 30, 2018). However, the portfolio remains geographically concentrated with 61% of the portfolio in West Bengal as on September 30, 2018. ASA’s ability to maintain prudent lending policies while growing at the envisaged pace will be a key monitorable.

Improved profitability indicators in H1 FY2019 – In H1 FY2019¹, ASA reported a net profit of Rs. 16.3 crore (Rs. 20.05 crore in FY2018) on a total asset base of Rs. 735.88 crore as on September 30, 2018 (Rs. 632.04 crore as on March 31, 2018). The company’s net interest margin/AMA increased to 10.2% in H1 FY2019 from 9.7% in FY2018 on account of lower cost of funds (13.81% as on September 30, 2018 compared with 15.74% as on March 31, 2018) and growth in the loan portfolio. The company’s operating expenses remained stable at 4.9% of AMA as on September 30, 2018 (4.7% as on March 31, 2018) despite the addition of 10 branches during the first half of the year. Overall, the company’s PAT/AMA increased to 3.23% as on September 30, 2018 from 2.96% as on March 31, 2018, supported by higher net interest margins and lower operating expense ratios resulting from a higher scale. Higher profitability coupled with higher leveraging led to an increase in RoE to 32.03% in H1 FY2019 from 30.25% in FY2018.

Technical and managerial support from parents – ASA receives technical support from ASA International and ASA Bangladesh. Of the eight members on its board of directors, four are from ASA International. ASA uses the ASA Microfinance Management System, a proprietary software developed in-house by ASA International, for its operations.

Experienced board and management team and good systems to support growth – ASA has an experienced management team with functional heads supervising its key areas and operations. Its operational software captures micro-level borrower data and is integrated with its financial accounting software.

Credit challenges

Geographical concentration risk – Notwithstanding a steady increase in the share of its portfolio in other states, the company’s concentration risk remains high with 61% (31% of own portfolio and 30% of BC portfolio) of the portfolio, as on September 30, 2018, being concentrated in West Bengal. Further, the top 10 districts accounted for 55% of the portfolio as on September 30, 2018. ICRA takes note of management’s efforts to diversify into other states.

Moderate capitalisation; higher incremental capital requirements – ASA’s capitalisation profile was moderate as the FLDG-adjusted gearing (on-book borrowings/net worth less FLDG) improved to 5.28 times as on September 30, 2018 from 8.99 times as on March 31, 2018. The total portfolio (AUM) grew by ~19% in H1 FY2019 to Rs. 918.10 crore as on September 30, 2018 from Rs. 772.34 crore as on March 31, 2018 while Rs. 35.40-crore equity was infused in the company by ASA International in Q2 FY2019. However, ICRA notes the company’s additional capital requirement based on its plans to grow at a fast pace. Going forward, ASA’s ability to raise adequate equity and maintain capitalisation at prudent levels will be critical for its credit profile.

¹ H1 FY2019 numbers are based on provisional financials

Limited financial flexibility owing to dependence on FIs/NBFCs – ASA has funding relationships with 25 lenders with around 61% of the on-book borrowings, as on September 30, 2018, being from NBFCs and around 22% from banks. Further, ASA has BC relationships with four banks as on September 30, 2018. With a high share of the borrowings being from NBFCs, the company’s ability to mobilise funds, given the tight liquidity situation prevailing in the market, and diversify its funding base would remain a key monitorable.

Marginal borrower profile – The marginal borrower profile and the political and operational risks associated with microlending may result in high volatility in the asset quality indicators. Political, communal, overleveraging and other risks in the portfolio and across geographies of operations will remain key sensitivities.

Liquidity position

ASA had a cash balance of Rs. 76 crore as on November 29, 2018 along with undrawn bank lines of Rs. 25 crore. Further, given the relatively shorter tenure of its assets, the company receives repayments from advances of around Rs. 50 crore per month, which are likely to support it in making debt repayments of Rs. 260.47 crore till March 2019. While the liquidity position is adequate for the timely payment of debt, the company would need additional funding for maintaining the disbursement levels.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA’s Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the standalone financials of the issuer

About the company

ASA International India Microfinance Limited is an indirect subsidiary of ASA International. The latter acquired the entire share capital of DHPPL in June 2008 and renamed it ASA. Subsequently, ASA International infused equity of \$7.5 million (around Rs. 31.5 crore) into ASA. As per the share purchase agreement, all assets and liabilities except the share capital and bank balances were retained by the previous owners. The new management started microfinance operations in July 2008.

ASA’s lending model is based on individual liability, without any group guarantee mechanism. As on September 30, 2018, it operated through a network of 283 branches, spread across 48 districts in West Bengal, Tripura, Assam, Meghalaya, Bihar and Uttar Pradesh. Its corporate office is in Kolkata (West Bengal) while the registered office is in Jalandhar (Punjab).

As per provisional financials, ASA reported net profits of Rs. 16.3 crore in H1 FY2019 (Rs. 20.0 crore in FY2018) on a total managed asset base of Rs. 1,116.0 crore as on September 30, 2018 (Rs. 908.6 crore on March 31, 2018).

Key financial indicators (audited)

	FY2016	FY2017	FY2018	H1 FY2019*
Net Interest Income	15.01	22.95	64.37	48.31
Profit before Tax	3.68	7.45	30.62	25.69
Profit after Tax	2.29	3.80	20.05	16.34
Managed Portfolio	134.22	351.61	772.34	918.10
Total Assets	144.07	327.73	632.04	735.88
% Tier 1	38.96%	17.78%	13.05%	13.96%
% CRAR	38.96%	17.78%	18.15%	21.56%
Gearing (Including Off-Book)	1.87	6.53	10.44	7.38
% Net Profit/Average Managed Assets	1.99%	1.25%	2.96%	3.23%
% Net Interest Margin/Average Managed Assets	13.1%	9.5%	9.7%	10.2%
% Gross NPA	0.06%	6.15%	0.62%	0.86%
% Net NPA	0.00%	5.64%	0.10%	0.16%
Net NPA/Net Worth	0.00%	23.26%	0.67%	0.69%

Source: Company, ICRA research; Amounts in Rs. crore; *Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years							
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018		Date & Rating in FY2017			Date & Rating in FY2016	
				December 2018	October 2018	December 2017	April 2017	December 2016	July 2016	May 2016		
1	NCD	Long Term	52.00	52.00	[ICRA] BBB (stable)	-	-	-	-	-	-	-
2	NCD	Long Term	97.50	97.50	[ICRA] BBB (stable)	[ICRA] BBB (stable)	[ICRA] BBB- (stable)	[ICRA] BBB- (stable)	-	-	-	-
3	Bank Lines	Long Term	700.00	700.00	[ICRA] BBB (stable)	[ICRA] BBB (stable)	[ICRA] BBB- (stable)	[ICRA] BBB- (stable)	[ICRA] BBB- @ (Rating watch placed with negative outlook)	[ICRA] BBB- (stable)	[ICRA] BBB- (stable)	-

Complexity level of the rated instrument

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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	8-Feb-18	-	25-Aug-19	5.25	[ICRA]BBB (Stable)
NA	Term Loan 2	16-Jan-18	-	28-Feb-20	6.25	[ICRA]BBB (Stable)
NA	Term Loan 3	9-May-17	-	1-Jun-21	47.50	[ICRA]BBB (Stable)
NA	Term Loan 4	12-Jul-18	-	21-Oct-20	10.15	[ICRA]BBB (Stable)
NA	Term Loan 5	9-Oct-17	-	29-Sep-20	15.00	[ICRA]BBB (Stable)
NA	Term Loan 6	14-Mar-18	-	10-Jul-21	17.67	[ICRA]BBB (Stable)
NA	Term Loan 7	30-Oct-18	-	15-May-20	15.00	[ICRA]BBB (Stable)
NA	Term Loan 8	24-Mar-17	-	3-Sep-20	12.54	[ICRA]BBB (Stable)
NA	Term Loan 9	25-Sep-17	-	10-Oct-20	6.81	[ICRA]BBB (Stable)
NA	Term Loan 10	26-May-17	-	15-Dec-19	40.06	[ICRA]BBB (Stable)
NA	Term Loan 11	13-Jun-17	-	13-Dec-18	1.23	[ICRA]BBB (Stable)
NA	Term Loan 12	1-Nov-17	-	16-Jan-20	17.87	[ICRA]BBB (Stable)
NA	Term Loan 13	31-Mar-17	-	30-Apr-21	26.67	[ICRA]BBB (Stable)
NA	Term Loan 14	1-Mar-18	-	26-Feb-20	21.82	[ICRA]BBB (Stable)
NA	Term Loan 15	29-Apr-17	-	25-Mar-20	57.50	[ICRA]BBB (Stable)
NA	Term Loan 16	14-Jun-17	-	15-Nov-20	11.64	[ICRA]BBB (Stable)
NA	Term Loan 17	7-Jun-18	-	1-Aug-21	18.33	[ICRA]BBB (Stable)
NA	Term Loan 18	8-Feb-18	-	28-Feb-21	7.50	[ICRA]BBB (Stable)
NA	Term Loan 19	17-Feb-17	-	13-Mar-19	2.50	[ICRA]BBB (Stable)
NA	Term Loan 20	8-Oct-17	-	10-Nov-18	0.89	[ICRA]BBB (Stable)
NA	Term Loan 21	29-Nov-17	-	5-Dec-19	10.86	[ICRA]BBB (Stable)
NA	Term Loan 22	3-Jan-18	-	24-Jan-20	12.50	[ICRA]BBB (Stable)
NA	Term Loan 23	4-May-18	-	1-Aug-21	8.75	[ICRA]BBB (Stable)
NA	Proposed Bank Facilities	NA	NA	NA	325.71	[ICRA]BBB (Stable)
INE746T07017	NCD 1	31-Mar-17	12.64%	30-Mar-20	10.00	[ICRA]BBB (Stable)
INE746T07025	NCD 2	10-Jun-17	14.00%	11-Jun-20	32.00	[ICRA]BBB (Stable)
INE746T07033	NCD 3	27-Dec-17	13.10%	27-Dec-22	28.00	[ICRA]BBB (Stable)
INE746T07041	NCD 4	27-Dec-17	13.10%	27-Dec-22	17.00	[ICRA]BBB (Stable)
NA	NCD 5	23-Nov-18	13.25%	18-May-21	26	[ICRA]BBB (Stable)
NA	NCD 6	23-Nov-18	13.25%	18-May-21	26	[ICRA]BBB (Stable)
NA	Proposed NCD	NA	NA	NA	10.50	[ICRA]BBB (Stable)
Total					849.50	

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