June 04, 2021

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank lines	800.00	800.00	[ICRA]BBB-(Stable); rating downgraded from [ICRA]BBB and outlook revised to Stable from Negative
Non-convertible debentures	429.46	429.46	[ICRA]BBB-(Stable); rating downgraded from [ICRA]BBB and outlook revised to Stable from Negative
Total	**1,229.46**	**1,229.46**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in the significant increase in ASA International India Microfinance Limited's (ASA India) delinquencies and the pressure on its profitability and growth in light of the Covid-19 pandemic. The disruptions caused by the pandemic severely impacted the borrowers' cash flows, leading to pressure on the asset quality metrics of microfinance players (including ASA India). Further, overdues were found to be significantly higher than the national average in a few states owing to state-specific challenges including natural calamities, political issues, and higher Covid-19 infections. Since ASA India has significant concentration in some of the highly impacted states, namely West Bengal (64%, including off-book, as on March 31, 2021) and Assam (14% as on March 31, 2021), its 90+ days past due (dpd) is higher than the industry average. The company reported a 90+dpd of 20.0% as on March 31, 2021 compared to 0.8% as on September 30, 2020. This is expected to have resulted in increased provisioning, thereby impacting the profitability in FY2021. The expected reversal of some interest income on delinquent accounts and lower non-interest income because of the reduction in business volumes during the year would also impact the company's profitability.

While ASA India's current collection efficiency had been improving in Q4 FY2021 and was reported at 87% in March 2021 (81% in December 2020), the collection efficiency is expected to remain volatile in the near term owing to the second wave of the Covid-19 pandemic. ASA India's ability to improve the collection efficiency and recover from delinquent accounts will be a key rating monitorable. ICRA expects the asset quality pressures to persist in the near to medium term, which could possibly suppress the profitability indicators for FY2022, depending upon the severity of the second wave of the pandemic. ICRA takes note of the company's medium-term growth plans and expects it to continue requiring equity capital to support the same. Going forward, ASA India's ability to raise adequate equity and maintain its capitalisation at prudent levels will be important from a credit perspective.

The rating also factors in the risks associated with the unsecured nature of microfinance loans, the marginal borrower profile, which is susceptible to income shocks, and the political and operational risks inherent in the microfinance business.

The rating continues to factor in the company's experienced management team, the technical and managerial support from its parent (ASA International Holding, which is a part of ASA International Group plc) and equity partner, IDFC First Bank (9.99% stake as on March 31, 2021) as well as its good systems and processes. The rating also factors in the company's fairly diverse funding profile with a good mix of term loans, debt securities and securitisation from 25 lenders as on March 31, 2021. The funding profile comprised debentures (53%), term loans from financial institutions/non-banking financial companies (NBFCs; 26%) and banks (11%), and external commercial borrowings (10%) as of March 2021. Going forward, ASA India's ability to raise funds in a timely manner to support its liquidity profile and growth plans while reducing its cost of funds would be important from a credit perspective.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's expectation that the company would continue to benefit from its experienced board and management team, good systems and processes, and fairly diversified borrowing profile.

Key rating drivers and their description

Credit strengths

Experienced board and management team; good systems and processes – ASA India's senior management team and board of directors are experienced professionals with considerable experience in the field of microfinance. The company receives managerial support in the form of board supervision from ASA International Holding. Four of the eight members on ASA India's board are from ASA International Holding. ASA India uses the ASA Microfinance Management System, an in-house proprietary model developed by ASA International, for its operations. The software captures micro-level borrower data and is integrated with its financial accounting software. While the company evaluates each borrower's creditworthiness individually, its lending model presupposes a social collateral arising out of peer pressure and the flexibility given to the borrowers to choose their own group members. ASA India has also developed a comprehensive internal audit system under which the branches are audited every six months with each audit spanning 4-5 days.

Fairly diversified borrowing profile – The funding profile comprised debentures (53%), term loans from financial institutions/NBFCs (26%) and banks (11%), and external commercial borrowings (10%) as of March 2021. The funding profile is fairly diversified with a good mix of term loans, debt securities and securitisation from 25 lenders as on March 31, 2021. Going forward, ASA India's ability to raise funds in a timely manner to support its liquidity profile and growth plans while reducing its cost of funds would be important from a credit perspective.

Credit challenges

Geographically concentrated operations – ASA India's operations are geographically concentrated with 64% of its portfolio in West Bengal. However, a large portion of its portfolio in West Bengal comprised the business correspondent (BC) portfolio (28% as of March 2021) where the company's risk is limited to 5% FLDG[1]/cash collateral maintained against the same. Also, ASA India has a sizeable portfolio in Assam (14% as of March 2021), where the industry has been facing headwinds for over a year. ICRA notes the company's efforts to reduce its portfolio in Assam and improve the geographical diversity in its operations. Going forward, ASA India's ability to further diversify geographically as it scales up its operations will remain important from a credit perspective.

Significant deterioration in asset quality – The microfinance industry is facing many challenges following the spread of the Covid-19 pandemic throughout the country. These include the continuity of business operations on the field and the adverse impact on the asset quality as the borrowers' cash flows and economic activity have slowed down. Given the challenges, the delinquencies have increased significantly and the company reported a 90+dpd of 20.0% as on March 31, 2021 compared to 0.8% as on September 30, 2020. Moreover, given ASA India's high concentration in West Bengal and Assam, its 90+ dpd is above the industry average.

While the company's current collection efficiency had been improving in Q4 FY2021 and was reported at 87% in March 2021 (81% in December 2020), the collection efficiency is expected to remain volatile in the near term owing to the second wave of the pandemic. Covid-19 infections have been rising rapidly and many regions are grappling with the shortage of supplies and other critical healthcare infrastructure. Consequently, several states/Union Territories (UTs) have either imposed lockdowns or have placed significant restrictions on gatherings and the movement of people, resulting in disruption in economic activities and impacting the field operations. Thus, the industry is witnessing a reduction in collections and the recovery seen in Q4 FY2021 is being challenged again.

[1] *First loss default guarantee*

Expected deterioration in profitability in the near term – ASA India's profitability indicators have previously been supported by low credit costs and healthy income on account of its operations as a BC. The company reported a net profit of Rs. 31.86 crore in FY2020 (Rs. 29.58 crore in FY2019), translating into an annualised return of 2.31% on average managed assets (AMA) (2.75% in FY2019) and 17.72% on average net worth (26.76% in FY2019). While the credit costs remained low in FY2020 at 1.03% of AMA, ICRA expects the same to increase in FY2021 given the significant deterioration in the asset quality. Hence, the profitability is expected to be under pressure in FY2021. The expected reversal of some interest income on delinquent accounts and lower non-interest income because of the reduction in business volumes during the year would also impact the company's profitability. This, coupled with the expected rise in credit costs, could suppress the profitability indicators in FY2021 and possibly in FY2022 as well, depending upon the impact of the second wave of the pandemic.

Maintaining a prudent capitalisation profile – The capitalisation profile improved in FY2020 owing to healthy internal capital generation and equity infusion of Rs. 38.25 crore (Rs. 38.93 crore in FY2019) by the promoters and investors. The company's CRAR remains comfortable and stood at 25.31% (Tier I CRAR: 21.09%) as on March 31, 2020 against the regulatory requirement of 15%. The leverage, however, has been increasing as ASA India increased its on-book liquidity. ICRA takes note of the company's medium-term growth plans and expects it to continue requiring equity capital to support the same. Going forward, ASA India's ability to raise adequate equity and maintain its capitalisation at prudent levels will be important from a credit perspective.

Ability to manage political, communal and other risks, given the marginal borrower profile – The rating factors in the risks associated with unsecured lending to marginal borrowers with limited ability to absorb 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 the company's operations. ASA India's ability to onboard borrowers with a good credit history, recruit and retain employees and improve the geographical diversity of its operations would be key for managing high growth rates.

Liquidity position: Adequate

As on December 31, 2020, the company had a cash and bank balance of Rs. 286 crore (Rs. 158 crore as on April 30, 2021) against scheduled debt obligations of Rs. 301 crore till June 30, 2021. Factoring in the expected collections from advances, the liquidity profile is comfortable to meet the debt obligations in a timely manner. Nevertheless, given the company's growth plans, it would require additional funding to support the envisaged disbursements. The company's ability to maintain and improve the collection efficiency and raise fresh funds in a timely manner will be important from a liquidity perspective.

Rating sensitivities

Positive factors – ICRA could revise the outlook or upgrade the rating if ASA India is able to scale up its operations further while improving its geographical diversification as well as its asset quality and profitability. Moreover, the company's ability to maintain a prudent capitalisation profile with an adjusted gearing being below 6 times on a sustained basis would be a key rating monitorable.

Negative factors – Pressure on the company's rating could arise if there is a further deterioration in the asset quality or operational efficiencies, which could affect its profitability. A deterioration in the capitalisation profile with the adjusted gearing exceeding 7 times on a sustained basis or a stretch in the liquidity 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	Not Applicable

About the company

ASA International India Microfinance Limited (ASA India) is a subsidiary of ASA International. 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 March 31, 2021, it operated through a network of 409 branches, spread across 61 districts in 7 states in India.

Key financial indicators (audited)

ASA International India Microfinance Limited	FY2019	FY2020
As per	**IGAAP**	**IGAAP**
Total income (Rs. crore)	181.33	245.36
Profit after tax (Rs. crore)	29.58	31.86
Net worth (Rs. crore)	144.80	214.92
Loan book (Rs. crore)	1,035.82	1,336.17
Total managed assets (Rs. crore)	1,236.25	1,511.28
Return on assets (%)	2.75%	2.31%
Return on net worth (%)	26.76%	17.72%
Adjusted gearing (times)	6.17	4.27
Gross NPA (%)	0.49%	2.22%
Net NPA (%)	0.23%	1.13%
Solvency (Net NPA/Net worth)	1.01%	4.74%
CRAR (%)	25.08%	25.31%

Adjusted gearing = (On-book borrowings + securitised loan assets)/(Net worth – cash collateral/FLDG for managed portfolio)

Source: *Company, ICRA research; All ratios as per ICRA calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					June 04, 2021	Dec 30, 2020	Oct 22, 2020 Jul 01, 2020	Dec 16, 2019 Sep 18, 2019	Feb 01, 2019 Dec 28, 2018 Dec 05, 2018 Oct 17, 2018
1	Term Loans	Long Term	800.00	109.62	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	NCDs	Long Term	429.46	424.88	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	ISIN	Complexity Indicator
Term loans	NA	Simple
NCD 1	INE746T07033	Simple
NCD 2	INE746T07041	Simple
NCD 3	INE746T07058	Very Simple
NCD 4	INE746T07066	Simple
NCD 5	INE746T07074	Simple
NCD 6	INE746T07082	Simple
NCD 7	INE746T07090	Simple
NCD 8	INE746T07116	Very Simple
NCD 9	INE746T07124	Very Simple
NCD 10	INE746T07132	Simple
NCD 11	INE746T08015	Very Simple
NCD – Proposed *	NA	Simple

** Assuming the new instruments issued will be similar in terms of complexity as the previous NCDs raised; indicator will be changed once they are placed, if required*

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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Mar-2017 to Nov-2019	6.97% - 14.25%	Dec-2019 to May-2025	659.45	[ICRA]BBB-(Stable)
NA	Term Loan – Proposed	NA	NA	NA	140.55	[ICRA]BBB-(Stable)
INE746T07033	NCD 1	Dec-27-17	13.10%	Dec-27-22	28.00	[ICRA]BBB-(Stable)
INE746T07041	NCD 2	Feb-22-18	13.10%	Feb-22-23	17.00	[ICRA]BBB-(Stable)
INE746T07058	NCD 3	Nov-30-18	13.25%	May-30-21	52.00	[ICRA]BBB-(Stable)
INE746T07066	NCD 4	Jan-08-19	12.86%	Jan-08-23	56.00	[ICRA]BBB-(Stable)
INE746T07074	NCD 5	Feb-13-19	12.86%	Feb-13-23	56.00	[ICRA]BBB-(Stable)
INE746T07082	NCD 6	Aug-05-19	13.80%	Aug-05-22	17.00	[ICRA]BBB-(Stable)
INE746T07090	NCD 7	Sep-30-19	13.25%	Sep-30-24	49.00	[ICRA]BBB-(Stable)
INE746T07116	NCD 8	Jul-14-20	12.39%	Jul-14-25	34.88	[ICRA]BBB-(Stable)
INE746T07124	NCD 9	Oct-05-20	14.39%	Jun-30-22	25.00	[ICRA]BBB-(Stable)
INE746T07132	NCD 10	Oct-05-20	14.39%	Sep-29-23	15.00	[ICRA]BBB-(Stable)
INE746T08015	NCD 11	Dec-22-20	16.67%	Jan-22-28	75.00	[ICRA]BBB-(Stable)
NA	NCD - Proposed	NA	NA	NA	4.58	[ICRA]BBB-(Stable)

Source: *Company*

Annexure-2: 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.

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