July 01, 2020

ASA International India Microfinance Limited: [ICRA]BBB(Stable) assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	-	37.92	[ICRA]BBB(Stable); assigned
Long-term bank lines	800.00	800.00	[ICRA]BBB(Stable); outstanding
Non-convertible debenture programme	313.54	313.54	[ICRA]BBB(Stable); outstanding
Total	**1,113.54**	**1,151.46**	

**Instrument details are provided in Annexure-1*

Rationale

The rating factors in ASA International India Microfinance Limited's (ASA) ability to scale up its operations, augmented by healthy internal accruals, equity support from the promoters and investors along with a fairly diverse funding profile. The company reported a 29% growth in its portfolio in FY2020 (44% in FY2019) supported by an increase in borrowers by 25% (31% in FY2019). ASA reported a net profit (provisional) of Rs. 34.30 crore in FY2020 (Rs. 29.58 crore in FY2019), translating into an annualised return of 2.49% on AMA (2.75% in FY2019) and 18.94% on average net worth (26.76% in FY2019). The rating factors in the company's experienced management team, the technical and managerial support from its promoters (ASA International and ASA Bangladesh) and equity partner, IDFC First Bank (9.99% stake as on March 31, 2020) 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 28 lenders. The funding profile comprised debt securities (40%), term loans from financial institutions/NBFCs (27%) and banks (21%), and external commercial borrowings (12%) as on March 31, 2020. The company has been able to raise Rs. 110 crore of debt funds from financial institutions and NBFCs, YTD FY2021. Going forward, ASA'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 rating is constrained by the company's geographically concentrated operations with 62% of its portfolio in West Bengal as on March 31, 2020 (58% as on March 31, 2019) and 16% in Assam (21% as on March 31, 2019). Further, there is scope for improvement in district level diversification of portfolio. However, of the 62% portfolio in West Bengal, 26% is own portfolio while rest 36% if off-book portfolio comprising business correspondence portfolio and securitisation. On the off-book portfolio, the company's risk is limited to 5% FLDG/cash collateral maintained against the same. The rating takes into account the improving capitalisation profile with ASA reporting a adjusted gearing[1] of 4.25 times as on March 31, 2020 (6.17 times as on March 31, 2019). ICRA takes note of the company's growth plans and expects it to continue requiring equity capital to support the same. The company raised ~Rs. 39 crore of equity capital in FY2020 (~Rs. 39 crore in FY2019) from its promoters and investors to support its growth plans. Going forward, ASA's ability to raise adequate equity and maintain capitalisation at prudent levels will be important from a credit perspective. The ratings also factor in the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks. Company'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.

The microfinance industry is facing many challenges following the spread of Covid-19 throughout the country. These include the continuity of business operations on the field and the possible adverse impact on the asset quality. The

[1] *Adjusted gearing = (on-book borrowings + pass-through certificates)/(net worth – credit enhancement for business correspondent portfolio)*

company's ability to manage the adverse impact of the Covid-19 pandemic on its asset quality and profitability as well as raise capital in a timely manner will be a key driver for the company's credit profile going forward.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that ASA will 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's senior management team and board of directors are experienced professionals with considerable experience in the field of microfinance. ASA receives managerial support in the form of board supervision from ASA International and ASA Bangladesh. Four of the eight members on ASA's board are from ASA International. ASA 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 has also developed a comprehensive internal audit system under which the branches are audited every six months with each audit spanning 4-5 days.

Good profitability indicators – ASA's profitability indicators are supported by low credit costs and healthy income on account of its operations as a business correspondent. The yield on average loans for the company was reported at 23.54% in FY2020 (23.59% in FY2019) while the cost of average interest bearing funds increased to 14.84% in FY2020 from 13.22% in FY2019. Despite the increase in cost of funds, the net interest margin improved to 9.27% of AMA in FY2020 from 9.42% in FY2019 as gearing declined. The credit costs remained low at 0.72% of AMA (0.43% in FY2019) while the operating costs were reported at 5.53% of AMA in FY2020 (5.23% in FY2019). The company reported a net profit (provisional) of Rs. 34.30 crore in FY2020 (Rs. 29.58 crore in FY2019), translating into an annualised return of 2.49% on AMA (2.75% in FY2019) and 18.94% on average net worth (26.76% in FY2019).

Fairly diversified borrowing profile – The funding profile is fairly diversified with a good mix of term loans, debt securities and securitisation from 27 lenders. The funding profile comprised debt securities (40%), term loans from financial institutions/NBFCs (27%) and banks (21%), and external commercial borrowings (12%) as on March 31, 2020. The cost of average interest bearing funds increased by 162 bps in FY2020 owing to the persisting liquidity concerns among NBFCs. The company has been able to raise Rs. 110 crore of debt funds from financial institutions and NBFCs, YTD FY2021. Going forward, ASA'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

Ability to manage adverse impact of Covid-19 pandemic on asset quality and profitability – 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 possible adverse impact on the asset quality the borrowers' cash flows and economic activity have slowed down. Moreover, incremental business growth has been hindered with disbursements being muted in Q1 FY2021. The company's ability to navigate through the adversity and manage the impact on business growth, client retention and asset quality would remain critical from a rating perspective, going forward.

Geographically concentrated operations – The company's operations are geographically concentrated with 62% of its portfolio in West Bengal as on March 31, 2020 (58% as on March 31, 2019) and 16% in Assam (21% as on March 31, 2019). However, of the 62% portfolio in West Bengal, 26% is own portfolio while rest 36% if off-book portfolio comprising business correspondence portfolio and securitisation. On the off-book portfolio, the company's risk is limited to 5% FLDG/cash collateral maintained against the same. The top 10 districts comprised 54% of the portfolio outstanding and represented 332% of net worth as on March 31, 2020 (53% and 382%, respectively, as on March 31, 2019). Going forward, the company's ability to further diversify its operations geographically as its scales up its operations will remain important from a credit perspective.

Maintaining a prudent capitalisation profile - The capitalisation profile improved in FY2020 owing to healthy internal capital generation and equity infusion of ~Rs. 39 crore (~Rs. 39 crore in FY2019) by the promoters and investors. The company's CRAR remains comfortable and stood at 25.62% (Tier I CRAR: 21.36%) as on March 31, 2020 against the regulatory requirement of 15%. Leverage has declined with an adjusted gearing[2] of 4.25 times as on March 31, 2020 (6.17 times as on March 31, 2019). ICRA takes note of the company's medium term growth plans and expects it continue requiring equity capital to support the same. Going forward, ASA's ability to raise adequate equity and maintain 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, as recently observed in Assam with the company's 30+dpd and 90+dpd increasing to 2.37% and 1.85%, respectively, as on March 31, 2020 from 1.31% and 0.57%, respectively, as on September 30, 2019. ASA'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 June 22, 2020, the company reported free cash and bank balances of ~Rs. 146 crore which is adequate to honour its scheduled debt obligations till August 31, 2020 in a timely manner. The company has also applied for a moratorium on its debt obligations, which would further reduce its debt obligations till August 31, 2020. Additionally, it has been able to raise ~Rs. 110 crore of debt funds during YTD FY2021, which further supports its liquidity profile. ICRA notes that the company has commenced collections in June 2020, which would aid its liquidity profile. The ability to timely raise fresh funds will be important from a liquidity perspective as the company has commenced disbursements.

Rating sensitivities

Positive triggers – ICRA could revise the outlook or upgrade the rating if there is a sustained improvement in company's profitability indicators with a return on managed assets (RoMA) of more than 2.5% on a sustainable basis and an improvement in the geographical diversification with the maintenance of the asset quality. The company's ability to raise equity and debt capital to support the envisaged growth while maintaining a prudent capitalisation profile with an adjusted gearing of less than 6 times on a sustainable basis could positively impact the rating.

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[2] *Adjusted gearing = (on-book borrowings + pass-through certificates)/(net worth – credit enhancement for business correspondent portfolio)*

Negative triggers – Pressure on the company's rating could arise if there is a deterioration in the asset quality or operational efficiencies, which could affect its profitability with RoMA falling below 2.0% on a sustained basis. A deterioration in the capitalisation profile with the adjusted gearing exceeding 7 times on a sustained basis or a stretch in liquidity could exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[ICRA's Credit Rating Methodology for Non-Banking Finance Companies]()
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

ASA International India Microfinance Limited (ASA) is an indirect subsidiary of ASA International. The latter acquired the entire share capital of Dilkusha Hire Purchase Private Limited (DHPPL) in June 2008 and renamed it 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. Its corporate and registered office is in Kolkata (West Bengal). ASA's lending model is based on individual liability, without any group guarantee mechanism. As on March 31, 2020 it operated through a network of 410 branches, spread across 60 districts in 7 states in India.

Key financial indicators (audited)

As per For the period ended	IGAAP FY2019	IGAAP FY2020*
Net interest income	66.58	85.36
Profit after tax	29.58	34.30
Net worth	144.80	217.35
Gross loan portfolio	1,035.82	1,336.15
% PAT / Average managed assets	2.75%	2.49%
% PAT / Average net worth	26.76%	18.94%
% Gross NPAs	0.49%	2.22%
% Net NPAs	0.23%	1.53%
% Net NPA / Net worth	1.01%	6.43%
% Capital adequacy ratio	25.08%	25.62%
Gearing (reported)	4.60	3.77
Gearing (adjusted)	6.17	4.25

*Adjusted gearing = (on-book borrowings + pass-through certificates)/(net worth – credit enhancement for business correspondent portfolio); *Unaudited; Amounts in Rs. crore; Source: Company & ICRA research*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

		Rating (FY2021)				Rating History for the Past 3 Years									
	Instrument	Type	Amount Rated	Amount Outstanding	Current Rating	FY2020		FY2019				FY2018			
					01-Jul-20	16-Dec-19	18-Sep-19	01-Feb-19	28-Dec-18	05-Dec-18	17-Oct-18	21-Dec-17	06-Oct-17	11-Sep-17	07-Apr-17
1	NCD	Long Term	313.54	312.50	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Term Loan	Long Term	800.00	559.45	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	NCD	Long Term	37.92	-	[ICRA]BBB (Stable)	-	-	-	-	-	-	-	-	-	-

Amounts in Rs. crore

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	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Mar-2017 to Nov-2019	11.65% - 14.25%	Dec-2019 to May-2025	559.45	[ICRA]BBB (Stable)
NA	Term loan – proposed	NA	NA	NA	240.55	[ICRA]BBB (Stable)
INE746T07017	NCD 1	31-Mar-17	13.25%	30-Mar-20	5.00	[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)
INE746T07058	NCD 5	23-Nov-18	13.25%	18-May-21	52.00	[ICRA]BBB (Stable)
INE746T07066	NCD 7	14-Dec-18	13.60%	18-May-21	56.00	[ICRA]BBB (Stable)
INE746T07074	NCD 8	8-Jan-19	12.86%	13-Feb-23	56.00	[ICRA]BBB (Stable)
INE746T07082	NCD 9	27-Jun-19	13.80%	05-Aug-22	17.00	[ICRA]BBB (Stable)
INE746T07090	NCD 10	30-Sep-19	13.25%	30-Sep-24	49.00	[ICRA]BBB (Stable)
NA	NCD – proposed	-	-	-	1.04	[ICRA]BBB (Stable)
NA	NCD – proposed	-	-	-	37.92	[ICRA]BBB (Stable)

Source: Company

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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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