# ASA International

# Interim Results 2023 | Audio Webcast

# 20th of September

# Transcript

Karin Kersten: Good morning, good afternoon, or good evening, dear investors, lenders, potential investors, raters and all interested parties to ASA International. Warm welcome to our webcast on the H1 results presentation for 2023. And we're happy to take you along our results as well as to the outlook.

I'm here in London in the room with Tanwir Rahman, our CFO, with Mischa Assink, our chief investor relations and also chief accountant, and we're happy to go through the presentation with the results. Also, on our webcast you will find our press release as well as business update and the presentation given will also be shared there.

Starting on the highlights of the performance, we can summarise that the operational performance has improved and at the same time we face disappointing financial performance due to external factors mainly. If you look to the number of clients, then, as you know, we do have a deliberate shrinking strategy in India, and that's mostly why the total number of clients went down in combination with the impact of Nigeria where there were elections and a demonetisation. The number of branches is growing slightly and if you look to our pre-tax profit, it's $13.8 million and the net profit being $3.7 million. The OLP growth has been very good in Pakistan, Philippines, Ghana, and Tanzania, especially in local currency where, if you look to the local currency OLP growth, our portfolio grew with plus 6%. So, here are the dollar numbers and they are being tempered by currency depreciation.

If you look to the PAR, it has improved to the end of 2022 and our current PAR>30, so portfolio at risk, overdue payments more than 30 days amounts to 3.8%. Our ECL expenses have gone down significantly since COVID and now are $2.8 million with a majority taken for India. The unrestricted cash balance is $45 million, which is, we have a sufficient cash position there. It has been lowered since earlier levels. That's mainly because of paying off some debt in India whilst we were shrinking there.

If you look to the key performance indicators operationally, you can see the number of clients already commented on. If you look to the OLP per client, you can see that in dollars it stays quite stable, but with the devaluation of the dollar, you can see that it's in constant currency, which you can see on the last column, it's growing with 8%. The PAR levels have decreased, and if you look to our returns on assets and equity, you can see that it's lower and that the first half-year profits are also lower, also because of higher incidental tax rates.

If you look to the geographies, then we earlier announced a shift that we could see South Asia shrinking and East Africa growing. You can still see this pattern continuing in the first half of the year, and so our portfolios, and these are in dollar rates, are shrinking in Pakistan and South Asia and you can see that East Africa is growing with Tanzania now being a very significant portfolio of $56 million OLP at the end of the half year. Now I'll hand over to Tanwir, our CFO, on some of the financials and I'll come back later.

Tanwir Rahman: Thank you, Karin. So, we just concluded our half-year review by EY UK where we landed at a PBT of $13.8 million and a net profit of $3.7 million. We see a big gap there and that is mainly due to the deferred tax assets that we couldn't avail in India, the PLC and the NV. Also, as Karin mentioned, the lower profit can be attributable to devaluation, ECL, and the supertax in Pakistan. On the OLP side, there's constant currency growth. On the equity side, we see the FX impact, something that is beyond our control.

If we look at our yield and margin and cost of funding, good improvements there, all positive, and the reason can be attributable to more disbursements in higher-yielding countries. And also, the fact that in some of our jurisdiction, the rate caps were lifted. Cost of funds remains broadly stable, and it is expected to grow up, but that should have a marginal impact for us because we are going to cover that with increased interest rates in some of our jurisdiction.

Next slide you can see our funding profile mix. As you can see on the left-hand side, that's our mix. It continues to be a mixture of equity, microfinance, loan funds, local deposits, loan from development banks, and DFC and commercial institutions. So, this period we raised $75 million in fresh debt, cash unrestricted, $45 million in the balance sheet, strong funding pipeline with close to $181 million fresh loans. We do see a downtrend in deposits and equity and as mentioned earlier, it's mostly due to the devaluation. We did have some covenants that were breached in this period, so in total we had 55 million of debt that had problems, but eventually we received waivers for 36 million. Funders and lenders have been very cooperative and is with us into the future. With that, I pass it to Karin again.

Karin Kersten: Thanks, Tanwir. And let's have a look from H1 figures to the business update of August, so the most recent figures. And if you look to our loan portfolio, first a word on the distribution. So, whereas India was the number one and largest country at one point, now you can see that others have grown while India have shrunk. Pakistan is a large contributor to our OLP and income, and Tanzania has grown to portfolio 57 million in OLP per August, and also the Philippines and Ghana are large contributors. Where you see India mentioned and the word total, it refers to the total portfolio, but the majority of this is our business correspondence portfolio where others provide the capital and also there is a maximum cap on the risk there. So, our own book is much smaller than the number annotated on this page.

If you look to the PAR>30, then after June, you can see it further goes down, and not only the PAR>30, but also the PAR>30 less the

PAR>180, which now shrunk from 1.7% at the end of half year to 1.3% at the end of August.

If you look to our collection efficiencies, then you can see that they are very high at the end of August, that there is only one outlier, not starting with a 9 or a 10, which is India. And here, again, the number refers to the total book, and so a large part of it, the risk is with BC partners after cap.

If you look to the other rates, you can see that they are very high and also Nigeria is a special mention, as the year has started there with a lot of problems regarding the election, the demonetisation, the very high fuel cost, and the unprecedented high affixed valuation. But if you look at the numbers here in collection efficiency, it has grown from 78% in March to 95% at the end of August, so we're very happy with that improvement.

Then on the regulatory side, and this is an important one, as we are moving from being a microfinance institution to microfinance banking in several of our markets. This relates to our wish to have a more enhanced product suite to our clients, not only loans, but also payments, deposits, savings, and other value-added services. If we look to Pakistan, we have received the microfinance banking license, and at the moment we are waiting for the certificate of commencement to be able to literally in our branches receive deposits and money from the clients. We have declared a dividend on the '22 results, and this has been applied to the Central Bank, the State Bank of Pakistan and approval is pending there.

Then if we go to Ghana, we have received an approval for the application of our digital financial services and that's very important in our route to digitalisation. The dividend declared was also improved and it has been partly paid in the meantime.

In Nigeria, also the Central Bank has approved the dividend over 2021, and we now were able to also get not only the dividend approved, but also part of the payment has been paid and transport now the dollar market has improved there in terms of there is a market to convert local currency to dollar and then to upstream it from the country to the group.

Then to Kenya. There the Digital Credit Providers Act took effect and that had some impact on us because we could not take deposits from our clients. We do have ambition to be licensed there, so this is an intermediate phase and so this will lead to having more loans in Kenya for the time being, so that's why if you look to the financing costs in Kenya, they have gone up a little. That will be offset once we have the licenses.

Regarding our digital route, we have also prioritised Tanzania and Kenya as key markets where we want to implement our core banking system and digital services first after the launch of Pakistan and Ghana.

If you look to our strategy, then we want to gain sustainable growth and increase financial inclusion by our growing loan portfolio. The increasing financial inclusion has been our strategy for a long time, and we've added two layers, of which the first one is the digital channel, adding to our branch model so not replacing but adding, and not only digital offering to the clients, but also using this as digital internal processes so that we can reduce the manual work.

The third layer in the strategy is to broaden products and services, so to go beyond loans, offer the loans online, then payments, deposits and value-added services.

If you look to the technology, we are now well underway in launching in the coming months the core banking system, the package system in Pakistan, and then soon after that in Ghana and release the digital financial services. Also, the supplier marketplace which already is being launched in Ghana and we have a thousand plus clients that have downloaded our app.

On the client channel side, you see the branch on the left and the right, and so we do not aim to stop working from branches. Our view is that the close vicinity to the client is really key to the ASA model, and we want to keep that. We will add the digital app and the S&P app and keep the branches as well. In the product suite already alluded on, so beyond loans and the internal processes, we aim to make them from manual to digital, from complex to simplified, and from here and there duplicated to straight through processing.

Then, an important sheet on the redesign of the group meeting. The group meeting is very important to us, and you can see at the bottom of the slide that the purpose for the group meeting for ASA is that it has social and financial benefits. It's mitigating credit risk because we can learn from the group what the developments in the markets are, how our female entrepreneurs are, how they are doing, and it helps us also in the KYC. Also, we can seek opportunities by being so close to the clients.

Well, some of the questions we get and also raise ourselves is how will the future look vis-a-vis the client group meeting? If you look to this slide, you see that the analogy financial transactions will over time disappear because if the money is distributed in a digital way, then clients won't need to come to us or to our branch to receive their loan, nor they need to go to the group for handing in their instalment.

However, the financial inclusion and education will still be a reason for clients to have added value from the group. Also, the social inclusion plays a big role and the digital inclusion, and the learning will be added because they are eager to learn how digital finance works.

On the picture of the page on the left-hand side, you see the traditional picture with the traditional client passbook and the traditional written loans and physical money. On the right-hand side, you can see pictures from Ghana where one of our loan officers is explaining about the digital app. On the picture below, you can see a lady who has three phones in her hand. Those are client phones. We do see the mobile phone penetration growing in the client groups and she is uploading here the supplier marketplace app on the phones of the clients.

Also, if you look at this digitalisation, not all clients will go digital at once. Some don't have smartphones, or some are eager to wait a little bit and see how the experience is. Also, clients can go partially digital, so we are more eager to distribute the loans digitally and, in the start, still have physical money in the payment to still have this must go reason to the groups. Also, disbursement has larger financial risk for our clients to walk on the streets with a big pile of money, so that's the partially digital.

Also, the frequency of the meetings can change and so if you have less meetings but still have these meetings, the benefits and the purpose for the group meetings can still be relevant whilst the frequency can go down.

Well, we are taking substantial strides in implementing the digital strategy, and so as I already indicated, we are about to launch the CBS in Pakistan. It's been a whole process, but it's going well, and we are going to launch it soon. After that directly we go for the implementation in Ghana where we are running in parallel but simply cannot launch a system in two markets at the same time. Ghana will follow very soon. Then with CBS, Ghana is the first market where the digital loans will be launched. The S&P app already is launched and a thousand plus clients have the app and now it's about conversion from having the app to orders and repeat orders.

Well, that brings us to the summary. If you look to our operational performance in the first half of the year, you see that we are growing in constant currency terms in the OLP with plus 6% in the first half year compared to end of last year. If you look to dollar terms, we do see a decrease, mainly because of some external headwinds and we do see our net profit amounting to $3.7 million. There is some lower recovery than expected of overdue loans in India. There is higher ECL expenses. The main reason is the FX headwinds, and Nigeria has that table with a devaluation of 70%, and then Pakistan went down with 27%. That's unprecedented since inception.

Then there is a provision of $1.4 million for an additional super tax. In Pakistan, the government raised a super tax. They announced that this year and it was effective retrospectively since 1st January 2022, so that was incidental and unexpected, but really hitting the net profit.

Pakistan, Philippines, Ghana, and Tanzania made positive contributions to our net profitability, and as already indicated, devaluation of the operating currencies made a big part. That will land in the exchange translation loss so that needs to be booked off our equity, and we want to note as well that we still have a sufficient capital base. Although there was a big write-off of the equity, we still sufficiently capitalised.

Well, regarding the outlook. On the one hand, we are positive in seeing improvements in the operating markets and continue to see them for the remainder of the year. To that extent, we are positive in the outlook in terms of quality portfolio, but also in OLP terms and growth in constant currencies.

However, we had big setbacks in the first half of 2023, and so that's why we restate our expectation for the outlook for the whole year that our net profit will be lower this year compared to 2022. The reasons relate to demonetisation and further inflation, unprecedented high, the developments in Nigeria, and to incidental tax claims. What that means to our dividend is that although the board has planned to return to its pre-COVID dividend policy, we now have to say given the tough market circumstances, that we believe that it's prudent at the moment not to commit to a dividend payment.

This brings me to the end of the presentation for investors or potential investors. We also want to announce that we will be in Scotland next week at 28th September. We will be present at the EFG Conference and we also will be in New York in 3rd and 4th October. If any of you are interested also in a follow-up meeting or a one-on-one meeting, please reach out to Mischa Assink, our head of investor relations, and I'm also happy to hand over to him for any further questions.

Mischa Assink: Yes, thank you Karin. I will now discuss the questions raised on the webcast. I'll combine similar questions on the same topics and to start with, there was a question, if there is a recording, because some people had difficulties on getting the sound. Indeed, there will be a replay on our website and also a transcript after the meeting. The transcript will take maybe one or two days, so then the webcast can be replayed. The next question is, if the loan rates to the clients are already updated to the new interest rate environment, and what about for lifting the rate caps in India and Sri Lanka?

Tanwir Rahman: Yeah, so we did go through that situation. What is the exact question?

Mischa Assink: Did client rates increase because of increase in lending rates?

Tanwir Rahman: Client's rates. I wouldn't say so. But yeah, obviously there has been an uptake that contributes to the margin. The thing is, on India, the disbursement is low, so that has an effect and that coincides directly with the client numbers.

Karin Kersten: To add to that, on the page that was shown on the yields, you can see our cost of funding being stable while the tenor of our loans, so from our lenders, is longer than the tenor of the loans we hand out to our clients. What we do see is that the inflation and the interest rises by not only ECB, but in a lot of markets by the inflation, is reflecting in higher current rates. We don't see that in our cost of funds yet, and we do see in some markets that, so for example, India indeed has, so the caps have been lifted, but the volumes are very small, so you can't see that yet. We do expect that if our cost of fund also will raise and we will price at market conform rates, that in the future some of the rates might go up and the yields will stay stable then.

Mischa Assink: Yep. Thank you. Then there was a question to repeat the figures on covenant breaches and received waivers. We can guide to slide 9 of the presentation that mentions $55 million of breaches of which $36 million waivers were received. The follow up question on that was, what was the reason for the breach and if you expect further breaches?

Tanwir Rahman: Yeah, so the main reason for the breaches surrounds India. We do have PAR>30 breach there. That accounts for the majority. Also, the fact that this is for the going concern period, which is a pretty longer timeframe. Lenders usually give us waivers for six months that do not cover the entire period per se, and that also accounts for most of the breaches.

Mischa Assink: Okay, thank you, Tanwir. We also have a couple of questions on the effective tax rate. The tax rate is quite high at the moment. The question is, what will be the outlook for the tax rate on a normalised basis, and what would be a long-term steady state for the tax rate over the long-term? Also, a follow up question on that is, what will be the drivers to get that tax rate lower?

Tanwir Rahman: Yes. As I mentioned earlier, there are certain countries, for example India, and some of our holding companies like NV and the PLC, these entities and holding companies do not foresee a profit in the future. That bars us from booking deferred tax asset. That is the main reason for this effective tax rate to be high. Coupled with that, we have the super tax and the Tanzania thin capitalisation. That's the reason. Again, we don't foresee that going away in the near future, but eventually. Some of the things we can do in order to reduce it is transfer pricing. We are working hard to get it started in Ghana, Nigeria, Pakistan, and India. Once those are in effect, we'll see a reduction. Also, our DFS investments, if these are passed into the countries, we'll also see a reduction in the rate.

Mischa Assink: Okay, thank you. Then the next question is, what type of constant currency OOP growth do you expect for the second half and medium term?

Karin Kersten: Yeah, that's a good question on growth. As you know, we are in markets where now and then there's a distortion, whether it be economically or by government or politically, so that's very difficult to say. When we were listed, we positioned as a growth stock with double-digit growth. What we're aiming for at the moment is to have a well-balanced portfolio and to deliver sustainable returns. That's also why we look at concentration risk and have added a concentration risk policy, not to have any country too large, but also we're looking to capital allocation, and allocation to where do we want to provide our money or grow in terms of how attractive the outlook in a country is. Then we're looking at yields, we're looking at margins, we're looking at size of clients, we're looking at the digital stage, but also at the ability to stream up dividends. We want to continue looking at that and to have healthy growth in constant currency, but also to be able to deliver an attractive result in dollars.

Mischa Assink: Okay. Next question is, since PAR>30 is improving, where would you expect provisioning to lend for the full year, and are there any countries where you think any specific or incremental provisioning may be necessary?

Tanwir Rahman: Yeah, that's a hard one to predict because these are assessed and judged at every balance sheet date. We do it on a monthly basis. But I would say India is a concern. There might be, based on what kind of write off we do, there could be higher or lower provisioning there. Nigeria continues to be a country where it has to be assessed very precisely and their quality is... They're struggling, so there could be more provisioning there also.

Karin Kersten: A good pointer for the provisions is looking at the PAR, and if you look at the PAR beyond half year then the business updates gives a good insight up to and including August. There you can see how the countries perform and we see an upper trend in most of the markets. The majority better to say, and then especially in Nigeria, we do see an improvement on PAR>30 and less PAR larger than 180.

Tanwir Rahman: Yeah. I would also add that there's two components to that provisioning. One is in the income statement, the other that leads to the reserve we built up in the balance sheet. Depending on which one you're looking at, I would suggest to look at the balance sheet one, because the income state one is a build-up.

Mischa Assink: Okay. There are different questions on India, and basically, if I combine those, is what have you done in India and what do you expect going forward?

Karin Kersten: Yeah, so India, if you read back on all our market publication, there was a lot of words of India in each of these. You see less words of India now in the announcements.

The reason is that we have shrunk the business significantly, and the figures which are in now are also including the BC portfolio, and so we have de-risked India.

Also, we do see that the marginal new loans, so the loans that are handed out post COVID, that they continue to make payments, that the clients continue to make payments on their loans due. That's an improvement on the new loans handing out. Well, one thing we know about in India is that we do not want one single country to have such a big impact or negative impact on the total of the portfolio. And that's why we've introduced a concentration risk policy, but also decreased it and work with BC Partners. Well, so going forward, that's what we know, or it will contribute, or this shrinking strategy is at place. Well, you could raise a follow-up question, which is, how could India then be capitalised? And we are grateful for the trust of the lenders and also the improvement which is now shown also in the recent new loans and after the restructuring there. That is to be seen how we go forward, but we want to go forward in a healthy way.

Mischa Assink: Okay. Next question is, do you feel that you are correctly capitalised as a company and is there a risk of dilution?

Karin Kersten: A risk of dilution in what sense, I would say? But if you look to the capitalise, well, there are two components which help. The short answer is yes, we are sufficiently capitalised, and we do have enough equity for our balance sheet. And so, we are in a good shape in the level of equity. Well, there are a few things that move equity. One of them is fixed movements. And if we have unfavourable fixed movements, it will have an impact on our FX translation reserve and eat in our equity. And the other element that will plus the equity is, of course, making profit and adding it to the equity. If we look at the FX risk, then our loans are in local currencies and our costs are in local currencies in the country. So, there is no FX risk in there. And if the loans are in dollars, they are hedged. And so, also, there the risk is mitigated.

We have added an equity hedging policy. And so, we are closely following what the FX forward rates are and what an FX hedge would cost, and at certain circumstances we could, and would, and will hedge the equity. Another measure to mitigate the FX, at a vulnerability to FX losses, is to declare the dividends or upstream the dividends from the countries to the group, as well as looking to interim dividends being paid because then it wouldn't be in the local currency in the country and evaporating. So, we are very closely monitoring and steering that. And we do see positive developments during the year of upstreaming dividends.

Mischa Assink: Okay. Can you give more clarity on your net profit guidance for the full year?

Karin Kersten: Yeah, that's a very valid question. And the answer is simple, that we have quoted that our profits will be lower. And we are not giving any further objective to that to make that more precise. And the reasons are given in the outlook, and that is that we do see that fixed movements and incidental taxes are really having a volatile impact. And so, our indication is and will be that the net profit will be lower.

Mischa Assink: Okay. Then we go to the last question, currently. If there are still any questions, please feel free to add them. But for now, this is the last one. What are the benefits of the digital channel for clients and for the company?

Karin Kersten: So, first and foremost, it's to improve our client offering, because if clients could do their financial services in a digital way, for example, the distribution of the loan is not only safer, so not to walk on the street with a big pile of money, but it's also much more efficient. Today, clients go to a branch, sometimes have to walk to our store branch, wait for a few hours for the whole due diligence process, and then they go home with their loan. So, it's much easier for a client to get the loan requested online and then have it distributed online. So, we do think it's very important to keep a good or to improve the client's proposition that a digital offering will help there. We also do see benefits to ASA. If you see how the client processes go at the moment, then a loan officer goes to clients meetings in the morning, but in the afternoon, a lot of time is spent on counting the money, reconciling the money, filling in forms, refilling in forms, filling in other forms, then entering it in a computer.

And so, a lot of time is spent on internal processes. Well, if we have our digital app, then the client flow and the loan officer app is both in this digital offering. And so, a loan officer could spend also the afternoon's time on client meetings or going to client's houses for collecting overdue loans. Also, in a digital situation, the client meetings might take place less frequent. Meaning, that we could even further optimise the efficiency in the network and have much higher client loadings with the same number of loan officers. So, we do foresee benefits both on the client side, as well as on our own operation's efficiency.

Mischa Assink: Thank you, Karin. There was one new question I think from your outlook explanation, which is, are you confident that '23 will be profitable after tax or might it be a loss?

Karin Kersten: No, the lower wasn't having a negative connotation to us.

Mischa Assink: Okay. So, this was the last question. So, back to you, Karin, for a closing remark.

Karin Kersten: Well, I just wanted to say to you, looking back at this review, but also the August business update, that our operations have shown an improvement in local currency. And we do have a good contribution from a large number of countries, that also the financial performance has been disappointing, mainly because of external factors relating to incidental tax, lower than expected ECL and especially the devaluation of the currency. Having said that, we are making big steps in our digital offering and we do have confidence in the further growth of our operational business. And we are looking ahead with confidence. And we also would like to thank you for your trust and time taken for this audio webcast, through all of the investors, lenders, potential investors, raters, and all interested parties. Thank you very much and have a nice day.