U Microfinance Bank Limited

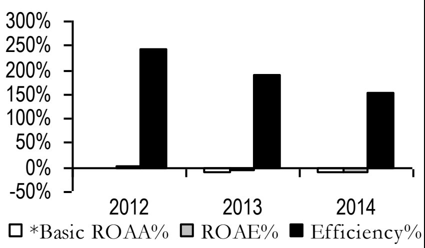
Chairman: Mr. Abdul Aziz; President / Chief Executive Officer: Mr. Arif Sirhindi

May 5, 2015

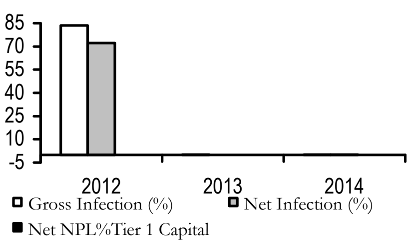
Analysts: Sobia Maqbool, CFA
Hasan Baddi

Category	Latest	Previous
Entity	A-/A-2 *April 29, '15*	A-/A-2 *April 30, '14*
Outlook	Stable	Stable

Key Financial Trends



** Based on recurring profit before provision and taxation*



	2012	2013	2014
Net Financings (Rs. in m)	0.4	41	344
Deposits(Rs.in m)	5.6	205.2	702.6
Deposit Cost (%)	7.1	2.1	4.14
Profit / (Loss) (Rs.in m)	(17.2)	(45.1)	(96.9)
Equity (Rs. in m)	1,084	1,039	956.7
Liquid Assets to Deposits & Borrowings (x)	188	5	1.5
Net Infection (%)	72.0	0.03	0.07

Rating Rationale

U Microfinance Bank Limited's (UMBL) rating reflects its association with a strong sponsor, Pakistan Telecommunication Company Limited (PTCL) – the largest telecom company in Pakistan – having 100% shareholding in the bank. PTCL is co-owned by the Government of Pakistan and Etisalat International Pakistan (LLC) (Etisalat). The management control of PTCL rests with Etisalat, state owned Telecom Corporation of UAE, having a long-term rating of 'AA-' by an international rating agency.

On-going support from the sponsor is reflected in the equity injection of Rs. 100m in February 2015, following a loss in FY14, creating a shortfall of Rs. 60.19m vis-à-vis the required minimum capital of Rs. 1b for nation-wide operations. This shortfall was created on account of a much larger loss reported in FY14 vis-à-vis projections, which in turn was on account of shortfall in revenues and high level of overheads in view of ten new branches set up in the year. Growth in lending activity may facilitate in rationalizing overheads. The Board of Directors has placed significant emphasis on achieving break-even in the on-going year.

In 2014, the bank was able to achieve its loan portfolio targets, with net advances standing at Rs. 344m at end 2014. Product mix includes a combination of collateralized and non-collateralized products, with the former comprising 32% of advances at end FY14, with primary exposure in gold backed products. The remaining portfolio is primarily deployed in agri-based loans, including livestock financing. Accordingly, current lending is largely in rural areas. With majority disbursements in Q4, quality of portfolio will become evident over time. Lending activities are projected to increase at a healthy pace with a loan portfolio of Rs. 780m targeted by end FY15. The bank plans to introduce group lending products within the secured agricultural segment in FY15. With micro-credit outreach estimated at 11.5% by the Pakistan Microfinance Network, the microfinance sector has significant potential for growth. The management is cognizant of the importance of increasing core-lending activity to achieve its bottom line targets and establish its position in the microfinance sector.

Product offering on the branchless banking side is also being expanded in addition to which the bank is forging strategic alliances with third parties to propel transaction volumes. Given the increasing number of players in this segment, there has been significant upward pressure on commission rates; accordingly, the revenue sharing arrangement has been revised with PTML to increase their share, from which commission to agents is being paid.

Deposit mobilization activity picked pace in 2014, though year-end deposit level was lower than projections. At current levels, the deposit profile features significant concentration, with the proportion of top 50 deposits increasing to 49% in FY14 (FY13: 40%). Branchless banking deposits of Rs. 149m at year-end FY14 (FY13: Rs. 93.7m) accounted for 21% of total deposit base. Total BB deposits include Rs. 139m from agents and Rs. 10m in lieu of mobile accounts; the former are expected to increase in line with a larger agent network and growth in transaction volumes while the volume of deposits generated through BB accounts is fairly limited on an industry wide basis.

At end-2014, Capital Adequacy Ratio (CAR) was reported at 135% (FY13: 238%), well above the regulatory minimum of 15%, with substantial deployment in risk free securities and a limited loan book. Accordingly, the bank currently has sizeable amount of liquid assets on its balance sheet. At current levels, the bank has room to grow risk weighted assets by more than Rs. 5b. Excess capital is likely to be absorbed as the bank continues to grow its loan book, with equity relative to net advances of 2.8x at end FY14, projected to decline to 1.4x in FY15 and 0.8x in FY16. The rating incorporates support of the bank's sponsor to be forthcoming, if required.

Overview of the Institution

Rozgar Microfinance Bank Limited, a district level micro-finance bank, was incorporated as a public limited, unlisted company in October 2003 under the Companies Ordinance, 1984. PTCL acquired the bank in August 2012 and changed its name to U Microfinance Bank Limited. The accounts for 2014 have been audited by M/s A.F.Ferguson & Co. – Chartered Accountants. Based on directions from the Board to appoint the group auditors as the auditors of the bank and subsequent approval from the shareholders of the bank, M/s Yousuf Adil Saleem & Co. have been appointed as external auditors of the bank for the year ending December 31, 2015