RATING REPORT

U Microfinance Bank Limited (UMBL)

REPORT DATE:

March 01, 2017

RATING ANALYSTS:

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RATING DETAILS	
Rating Category	**Preliminary Instrument Rating**
	BBB+
Rating Outlook	Stable
Rating Date	*March 01, 2017*

COMPANY INFORMATION	
Incorporated in 2003	**External Auditors:** Deloitte Yousuf Adil Chartered Accountants
Unlisted Public Limited Company	**Chairman:** Mr. Rainer Rethgeber
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Syed Umar Viqar
Pakistan Telecommunication Company Limited – 100%	

APPLICABLE METHODOLOGY(IES)
Microfinance Banks (**May 2016**) **Notching the Issue (June 2016)** **http://www.jcrvis.com.pk/kc-meth.aspx**

U Microfinance Bank Limited (UMBL)

OVERVIEW OF THE INSTITUTION

UMBL (previously, Rozgar Microfinance Bank Limited) was incorporated as an unlisted public limited company in 2003 under the Companies Ordinance 1984. UMBL is a wholly owned subsidiary of Pakistan Telecommunication Company Limited (PTCL) and a sister concern of Pak Telecom Mobile Limited (PTML) (Brand Name – Ufone).

Profile of Chairman
Mr. Rainer has more than 20 years of experience in telecommunications sector. He has served as CEO of T-mobile, Senior Vice President Marketing Europe at Deutsche Telekom Group and Chief Commercial Officer at Etisalat.

Profile of CEO
Mr. Umar holds MBA degree from Allama Iqbal Open University and carries experience in financial sector as Head Operations, Business Head & Branchless Banking Head in commercial and microfinance banking.

Financial Snapshot
Net Profit: FY16-Rs. 72.4m; FY15-Rs. 8.0m

Net worth: end-FY16-Rs. 1.1b; FY15-Rs. 1.0b

RATING RATIONALE

The assigned rating reflects U Microfinance Bank Limited (UBML) association with a strong sponsor, Pakistan Telecommunication Company Limited (PTCL). PTCL is co-owned by the Government of Pakistan and Etisalat International Pakistan (LLC) (Etisalat). Management control of PTCL rests with Etisalat, a state owned Telecom Corporation of UAE.

Credit Risk: Under a revised business strategy, the institution shifted focus towards conventional microfinance operations with net advances portfolio growing six fold to Rs. 5.5b (FY15: Rs. 912.9m) by end-FY16. The bank also expanded its branch operations with addition of 8 branches and 29 service centers during the outgoing year. Unsecured loan portfolio represents more than 70% of total portfolio while around 85% of advances carry bullet payment structure. Infection in the portfolio has remained low with net infection reported at 0.3% at end-FY16. Given the rapid growth in loan book and the fact that portfolio is majorly based on bullet repayment, quality of fresh lending in the portfolio will become evident as the loan cycle matures.

Liquidity & Funding: The funding strategy of UMBL reflects reliance on deposits to finance growth in the advances portfolio. With expansion of branch network, deposit base of the bank depicted a significant growth and stood at Rs. 8.1b (FY15: 1.1b) at end-FY16. Increase in deposit base is largely attributable to growth in fixed and savings deposits. The deposit base depicts high concentration with top 50 depositors representing around 64% of total deposits. Given the concentration in deposit base, the bank may need to maintain a larger liquidity cushion on the balance sheet to mitigate associated risk.

Capitalization: Net worth of the bank stood at Rs. 1.1b (FY15: Rs. 1.0b) at end-FY16 with equity as a percentage of assets declining to 10.6% (FY15: 46.2%). Risk-weighted assets increased considerably on account of higher advances, leading to lower Capital Adequacy Ratio (FY16: 17.9%; FY15: 88%). Nonetheless, CAR remained above regulatory requirement and offers some room for further growth in advances.

Profitability: The bank reported after-tax profit of Rs. 72.4m (FY15: Rs. 8.0m) during FY16 while spreads of the bank largely remained unchanged. Going forward, profitability is expected to remain a function of growth in the quantum of earning assets.

Instrument Structure: UMBL plans to issue a Privately Placed, subordinated Term Finance Certificate (PPTFC) for a tenor of 7 years with an issue amount of Rs. 600m. The PPTFC will contribute towards UMBL's TIER II capital for Capital Adequacy Ratio (CAR) as per guidelines set by SBP. Principal repayment of the issue will be in four semi-annual installments after a grace period of 5.5 years while interest will be charged on semi-annual basis at the rate of 6-month KIBOR plus 3.5%. The PPTFC will be unsecured, subordinated as to payments of principal and profit to all other indebtedness of the bank including deposits. The PPTFC carries a lock-in clause whereby neither profit nor principal can be paid (even at maturity), if such payment will result in a short-fall in UMBL's MCR or CAR or increase any existing shortfall in MCR and CAR. Moreover, the PPTFC will be subject to loss absorbency, under which the PPTFC, at the option of the SBP, will be fully and permanently converted into common shares or immediately written off upon the occurrence of a non-viability trigger event as determined by SBP.

U Microfinance Bank Limited (UMBL) **Appendix I**

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
	Dec-16	**June-16**	**2015**	**2014**
Total Assets	10,591.7	6,430.8	2,270.9	1,832.0
Net Advances	5,528.4	3,159.6	912.9	344.1
Asset Quality				
Gross Infection (PAR-30) (%)	0.5	0.1	0.5	0.1
Net Infection (%)	0.3	0.1	0.1	0.01
Funding & Liquidity				
Deposits	8,109.9	4,069.0	1,065.3	702.6
Net Advances to Deposit Ratio (%)	68.0	78.0	86.0	49.0
Cost of Funds (%)	9.3	8.4	6.02	4.1
Capitalization				
Net worth	1,122.5	1,096.7	1,048.1	956.7
Net Worth % Total Assets	10.6%	17.1%	46.2%	52.2%
Profitability				
Profit/ (loss) Before Tax	93.7	57.2	29.9	(136.6)
Profit/ (loss) after Tax	72.4	40.4	8.0	(97.0)
Spreads (%)	20.0%	20.6%	18.7%	22.2%
Number of Branches	75	65	38	25
Total Number of active clients	118,160	73,099	22,254	8,786
Average loan size	47,197	43,592	41,313	39,437

INSTRUMENT RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Annexure-III
Name of Rated Entity	U Microfinance Bank Limited				
Sector	Microfinance Banks				
Type of Relationship	Solicited				
Purpose of Rating	Instrument Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
		RATING TYPE: INSTRUMENT			
	01-Mar-17	BBB+		Stable	Preliminary
		RATING TYPE: ENTITY			
	28-Apr-16	A-	A-2	Stable	Reaffirmed
	29-Apr-15	A-	A-2	Stable	Reaffirmed
	30-Apr-14	A-	A-2	Stable	Upgrade
	30- Apr-13	BBB+	A-2	Positive	Upgrade/Rating Watch Removed
	23- Apr-12	BB+	A-3	Rating Watch-Positive	Maintained

Instrument Structure	**Instrument**	**Privately Placed Term Finance Certificate**
	Issue amount (Rs.)	600 million
	Tenor	7 years
	Security Structure	Privately placed, unsecured, subordinated
	Grace Period	5.5 years
	Repayment	Four semi-annual installments
	Interest Rate	6-month KIBOR plus 3.5%

Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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