Advans Pakistan Microfinance Bank

Chairman: Dr. Claude Falgon; CEO: Mr. Tanguy Gravot

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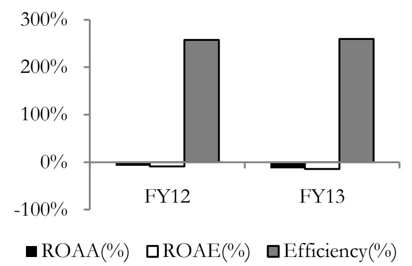
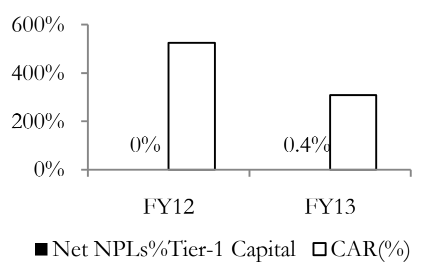
Category	Latest	Previous
Entity	**BBB+/A-3**	**N/A**
	April 25, '14	-
Outlook	**Stable**	**-**

Key Financial Trends





	2013
Net Financings (Rs. in m)	42.1
Deposits (Rs.in m)	10.6
Deposit Cost (%)	3.6
Profit before Tax (Rs.in m)	(99.8)
Equity (Rs. in m)	636.2
CAR (%)	308
Liquid Assets (in relation to) Deposits & Borrowings (x)	59x
Net Infection (%)	1.8

Rating Rationale

Advans Pakistan Microfinance Bank (APM) was incorporated in 2012 with a provincial level license to conduct microfinance banking activities in Sindh, Pakistan. The bank is jointly owned by a social venture capital investment company, namely, Advans S.A.SICAR (Advans SA) and a Foreign Development Financial Institution (DFI), Netherlands Development Finance Company (FMO), having 70% and 30% shareholding, respectively. Advans SA has investments in eight green field microfinance projects in Asia and Africa. The group is backed by various international DFIs including European Investment Bank having 21% stake in Advans SA. APM commenced operations in January 2013 in Pakistan.

The Advans group provides technical support to its newly launched projects through a Technical Assistance (TA) program. The program serves to build institutional capacity that includes training and system development during initial stages of the project. The idea is to implement Advans group's core lending methodology, systems and procedures, uniformly across all group entities. A similar program is functional at APM that involves deputation of senior microfinance experts from the group as consultants at key positions of the bank for a specific time period. The bank has developed the policy framework and branch structure in addition to establishing several functions at the head office level. However, there are still gaps in the structural framework and it will take some time before the bank would be able to operate at full capacity. The bank is likely to experience several changes at management cadre during the transition period of organizational setup. APM has implemented an integrated ERP as part of the TA program. The system is fully functional and also deployed at group level.

The delays in launch of full scale operations in the backdrop of staff related challenges at branch level constrained pace of lending activities. Gross advances portfolio stood at Rs. 44.5m vis-à-vis target of Rs. 103.2m for end-2013. The bank experienced 44% turnover at the CRO level that hampered the productivity level at branches. The bank's loan products are primarily geared to provide micro-credit to entrepreneurs. Consequently, average loan size is projected to be higher than other players in the micro-finance sector. Asset quality indicators will be tested as the bank builds its portfolio. Business target for 2014 has also been revised downwards, with a loan portfolio of Rs. 197.6m targeted to be achieved by end 2014.

As a startup bank, with limited lending operations and assets primarily deployed in t-bills or TDRs, the quantum of liquid assets currently carried on balance sheet is considerably high. Over the next 5 years, the amount of liquid reserves carried on books is projected to dilute as the bank plans to deploy as much as four-fifths of its assets in core lending activities. The bank's funding strategy, as laid down in the business plan, is primarily focused on deposits. There may be limited focus on deposit mobilization over at least the near to medium term. Given the resources currently available, the bank would be able to meet its disbursement targets over at least the next two years.

Initial losses have led to erosion in equity to Rs. 636.2m (FY12: Rs. 736.6m) in 2013. The projected loss for 2014 is Rs. 128m. The Minimum Capital Requirement (MCR) for microfinance banks operating at provincial level is Rs. 500m. Sponsors may need to inject additional equity to meet the MCR if the bank is unable to perform as per projections.

Overview of the Institution

APM has a license to operate in the province of Sindh having a network of 3 branches and one permanent booth in Karachi. Financial statements for FY13 were audited by Yousuf Adil Saleem & Co. which is in the 'A' category of SBP's Panel of Auditors JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: Entity		
25-Apr-14	BBB+	Stable	A-3	Initial