

## RATING REPORT

### Advans Pakistan Microfinance Bank Limited

**REPORT DATE:**

April 07, 2017

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-3	BBB+	A-3
Rating Outlook	Stable		Stable	
Rating Date	March 16, 2017		April 29, 2016	

#### COMPANY INFORMATION

<b>Incorporated in 2012</b>	<b>External auditors:</b> Deloitte Yousuf Adil & Co. Chartered Accountants
<b>Limited Liability Company</b>	<b>Chairman of the Board:</b> Mr. Claude Falgon
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Zine El Abidine Otmani
Advans SA SICAR – 75%	
Netherlands Development Finance Company– 25%	

#### APPLICABLE METHODOLOGY(IES)

**Methodology:** *Micro Finance Banks (May 2016)* <http://www.jcrvis.com.pk/kc-meth.aspx>

## Advans Pakistan Microfinance Bank Limited

### OVERVIEW OF THE INSTITUTION

Advans Pakistan Microfinance Bank Limited (APMBL) was incorporated in 2012 as a public limited company under Microfinance Institutions Ordinance, 2001.

#### Profile of Chairman

Dr. Claude Falgon serves as Chairman of the Board; his experience spans over 35 years during which he has chaired various organization including La Fayette Participations and Advans International (Formerly Horus Development Finance). Mr. Claude has been associated with Advans SA since 2005.

#### Profile of CEO

Mr. Zine EL Abidine was appointed APMBL as CEO in 2016; previously he was serving the organization as Deputy CEO. Mr. Zine's experience spans over fourteen years during which he has undertaken various roles including CFO, Managing Director and CEO of various microfinance institutions

#### Financial Snapshot

Net Equity: 2016 – Rs. 615m, 2015 – Rs. 487m

Net Loss: 2016 – Rs. 206m, 2015 – Rs. 78m

### RATING RATIONALE

Operating under jurisdiction of Microfinance Institutions Ordinance, 2001, Advans Pakistan Microfinance Bank Limited (APMBL) has obtained the required licensing to provide banking services in the province of Sindh. Currently, the bank operates out of 5 branches (2015: 4), 1 branch extension booth (2015: 2) and 1 service center (2015: 3). 2 new branches are planned to be opened in the ongoing year. The bank's strategy is to focus on business lending to individuals and very small enterprises.

- Sponsor Support:** Assigned ratings of APMBL incorporate demonstrated support of bank's major sponsor, Advans SA SICAR (Advans SA). Sponsors (Advans SA and Netherlands Development Finance Company (FMO)) possess extensive experience in the microfinance sector, as depicted by their presence in microfinance institutions in several countries. Along with financial support, the majority shareholder, Advans SA, also provides technical assistance to its affiliates. Under this arrangement, Advans SA helps to build institutional capacity, including training and system development.
- Credit Risk:** Gross financing portfolio witnessed a decline during 1H16 on account of maturities being higher than disbursements. Disbursements have picked pace subsequently increasing from Rs. 16m in July'2016 to Rs. 52m in February'2017 on account of improved productivity of loan officers. Resultantly, gross financing portfolio has increased to over Rs. 250m at end-February'2017. With loan officers projected to double by end-2017, financing portfolio is projected to be increased to Rs. 520m by end-2017.
- In order to strengthen portfolio quality indicators a number of steps have been initiated by the new management including ensuring implementation of group policies & procedures and senior management supervision of all loans given through presence of either COO, Head of Sales & Expatriate Staff in daily loan committee meetings. Moreover, performance bonus is linked to portfolio quality indicator and strict adherence to portfolio disbursement condition is ensured by the management. In addition to incentivizing and monitoring loan officers, clients are rewarded for timely repayments through lower rates being offered in subsequent loan cycle. Asset quality indicators have improved with NPLs declining in absolute terms and gross infection being lower at 2.6% (2015: 11.6%).
- Profitability:** While quantum of operating losses have declined during the latter half of 2016, overall operating losses were higher at Rs. 144.7m (2015: Rs. 111.7m) with increase in administrative expenses and decline in net interest income. Despite a 50% reduction in provisioning expenses, loss before tax stood higher at Rs. 157.5m (2015: Rs.137.6m). Going forward, trend in operating losses is expected to continue with quantum of the same expected to decline with growth in portfolio. Management expects to break-even by latter half of 2018.
- Capitalization & Liquidity:** Equity base of the Bank increased to Rs. 615.2m (2015: Rs. 486.6m) on account of equity injection by Advans S.A. to the tune of Rs. 340m in 2016 (including preliminary expenses payable to holding company). Additional equity injection of Rs. 150m is also planned in the ongoing year. Given the current trend in operating losses, management does not foresee further equity injection requirement unless the sponsors approve transition to a national microfinance bank. Capital Adequacy Ratio (CAR) was reported at 114% (2015: 115%) at end-2016. CAR of the Bank is expected to remain at comfortable levels over the rating horizon given the growth plans of the Bank. Liquid assets carried on the balance sheet have increased on a timeline basis. While increasing over time deposit base is low and features concentration. The same is planned to be increased as growth in loan book picks pace. Diversification of funding sources is considered important.
- Management:** During 2016, management team has witnessed a number of changes with the deputy CEO being appointed as the CEO while fresh induction at senior management level has been undertaken at the position of Chief Operating Officer, Head of Internal Audit and Head of Risk. Currently, no senior management positions are vacant. Other organizational and board committee level changes have been noted.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

### Advans Pakistan Microfinance Bank Limited

### Appendix I

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b><u>BALANCE SHEET</u></b>	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>
Total Investments	59.1	-	147.1
Net Financing	207.6	181.2	98.5
Total Assets	684.6	562.7	619.8
Borrowings	-	-	-
Tier-1 Equity	437.8	469.6	547.3
Net Worth	615.2	486.7	568.5
<b><u>INCOME STATEMENT</u></b>	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>
Net Mark-up Income	78.3	82.7	65.3
Net Provisioning / (Reversal)	12.8	25.9	7.0
Non-Markup Income	23.6	20.6	20.4
Operating Expenses	246.6	215.0	166.8
Profit/ (loss) after tax	(205.9)	(77.7)	(88.9)
<b><u>RATIO ANALYSIS</u></b>	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>
Gross Infection (%)	2.6	11.6	4.2
Net Infection (%)	1.2	2.6	1.2
Net NPLs to Tier-1 Capital (%)	0.6	1.0	0.2
Markup Spreads (%)	12.1	15.2	7.8
OSS (%)	39.0	44.1	42.5
ROAA (%)	(33.0)	(13.1)	(12.9)
Liquid Assets to deposits & borrowings (x)	17.63	14.69	28.50

**ISSUE/ISSUER 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](http://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](http://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](http://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.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Advans Pakistan Microfinance Bank Limited (APMBL)				
<b>Sector</b>	Micro Finance Bank (MFB)				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	3/16/2017	BBB+	A-3	Stable	Reaffirmed
	4/29/2016	BBB+	A-3	Stable	Reaffirmed
	4/28/2015	BBB+	A-3	Stable	Reaffirmed
	4/25/2013	BBB+	A-3	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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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