RATING REPORT

Advans Pakistan Microfinance Bank Limited

REPORT DATE:
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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	*April 25, 2018*		*March 16, 2017*	

COMPANY INFORMATION

Incorporated in 2012	**External auditors:** A. F. FERGUSON & CO., Chartered Accountants
Limited Liability Company	**Chairman of the Board:** Dr. Claude Falgon
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** 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

RATING RATIONALE

The assigned ratings to Advans Pakistan Microfinance Bank Limited (APMBL) reflect its association with strong sponsors- Advans SA Sicar (Advans SA) and Netherland Finance Company (FMO). Currently the bank operates 8 branches (2016: 5) with plans to set up 2 new branches in the ongoing year. APMBL also targets to commence operations as a National Microfinance Bank by 2020. Key area of focus for APMBL includes lending to individuals and micro enterprises.

- **Credit Risk:** Disbursements have picked pace during 2017 and in the ongoing year with monthly disbursements increasing by 2.4x to Rs. 120m currently on account of improved productivity and increase in the number of loan officers. Resultantly, net financing portfolio has increased to Rs. 691.7m (2017: Rs. 558.6m; 2016: Rs. 207.6m) at end-March'2018. Financing portfolio is projected to double by end-2018. Around 95% of the portfolio is based on equal monthly installments (EMI) repayment structure with financing primarily comprising enterprise loans in urban areas. Product concentration continues to be on the higher side with Advans Tijarat representing around three-fourth (2016: 60%) of the total loan portfolio. Going forward, management plans to also diversify into the agriculture sector. A revised organizational hierarchy was implemented in the outgoing year with additional checks introduced in order to ensure effective loan monitoring and disbursement. PAR-30 and incremental infection have declined on a timeline basis and stood at 2.2% (2016: 2.6%) and 3.5% (2016: 4.95). Given the rapid growth projected in loan book, future trend with respect to asset quality indicators will continue to be tracked by JCR-VIS.
- **Liquidity:** Liquidity profile of APMBL draws support from growing deposit base and sizeable liquidity buffer carried on the balance sheet with liquid assets representing 74% of total deposits and borrowings at end-March'2018. Deposit base of the bank increased to Rs. 493.6m (2017: Rs. 301.6m; 2016: Rs. 21.5m); fixed deposits represent the major proportion of deposit base with deposits maturing over 1 year witnessing a noticeable increase at end-1QCY18. However, concentration in deposit base is sizeable. Going forward, excess liquidity carried on the balance sheet is expected to be absorbed in order to fund rapid growth planned in loan book. Given high depositor concentration level, maintenance of adequate liquidity buffer is considered important till granularity in deposit base is achieved. Management also targets to mobilize long-term borrowings in the ongoing year to support liquidity profile.
- **Profitability:** While trend in operating losses has persisted, quantum of the same declined during 2017 and amounted to Rs. 116.3m (2016: Rs. 141.79m). Going forward, the management has projected month-on-month operating losses to decline with growth in advances portfolio and consequently achieve breakeven in the last month of the ongoing calendar year. Overall operating loss is budgeted at Rs. 93m for 2018. Reversing trend in operating losses is considered important from a ratings perspective.
- **Capitalization:** Despite a sizeable loss incurred during 2017, equity base of APMBL increased to Rs. 630.2m (2016: Rs. 615.2m) on account of equity injection to the tune of Rs. 150m in 2017. At end-March'2018, equity base declined to Rs. 597.5m due to loss incurred during the period. Capital Adequacy Ratio (CAR) (2017: 89%; 2016: 113%) of the bank remains at comfortable levels. Given the projected growth in financing portfolio, CAR of the Bank is projected to decline but is expected to remain well above regulatory requirement. In the absence of any further equity injection, reversing trend in operating losses is considered important to maintain cushion over Minimum Capital Requirement.
- **Management:** During 2017, the management team has witnessed a number of changes with resignation of CFO, Head of Human Resource, Head of Administration, and Head of Information Technology. Positions of CFO and Head of Human Resource have been filled. Turnover continued to remain high at the position of loan officers with around half of the loan officers having experience of less than 6 months. Initiatives have been undertaken to arrest high turnover at loan officer level impact of which is expected to be visible in the ongoing year.

OVERVIEW OF THE INSTITUTION

Advans Pakistan Microfinance Bank Limited (APMBL) was incorporated in 2012 as a public limited company under Microfinance Institutions Ordinance; 2001.The bank is licensed to operate in the province of Sindh.

Profile of Chairman

Dr. Claude Falgon serves as Chairman of the Board; his experience spans over 36 years during which he has chaired various organizations 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 seventeen years during which he has undertaken various roles including CFO, Managing Director and CEO of various microfinance institutions.

Financial Snapshot

Net Equity: 2017- Rs. 630m, 2016- Rs. 615m

Net Loss: 2017- Rs.129m, Net Loss 2016 – Rs. 206m

Advans Pakistan Microfinance Bank Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**2015**	**2016**	**2017**
Total Investments	-	59.1	-
Net Advances	181.2	207.6	558.6
Cash and Bank Balances	214.8	319.4	322.2
Total Assets	562.7	684.5	1,003.1
Deposits	14.6	21.5	301.6
Borrowings	-	-	-
Tier-1 Equity	469.6	603.9	624.5
Net Worth	486.6	615.2	630.2
CAR	137.0%	113.0%	89.0%
INCOME STATEMENT	**2015**	**2016**	**2017**
Net Mark-up Income	82.7	78.3	138.3
Net Provisioning / (Reversal)	25.9	12.8	11.3
Non-Markup Income	20.6	23.6	41.4
Operating Expenses	215.0	246.6	302.8
Recurring Income	94.3	93.4	164.8
Core Earnings	(120.7)	(150.3)	(131.1)
Profit/ (loss) after tax	(77.7)	(205.9)	(129.4)
RATIO ANALYSIS	**2015**	**2016**	**2017**
CA (%)	42.2%	44.0%	8.5%
CASA (%)	100.0%	100.0%	62.1%
Gross Infection (%)	11.6%	2.6%	2.2%
Net Infection (%)	2.6%	1.4%	1.5%
Incremental Infection (%)	19.0%	4.9%	3.5%
Net NPLs to Tier-1 Capital (%)	1.0%	0.5%	1.4%
Provisioning Coverage (%)	87.6%	80.9%	73.8%
Advances to Deposits (x)	13.79	9.88	1.88
Return on markup bearing assets (%)	18.9%	16.7%	23.1%
Cost of Funds (Deposits) (%)	3.8%	4.6%	4.9%
Markup Spreads (%)	15.2%	12.1%	18.3%
OSS (%)	43.9%	38.3%	55.7%
ROAA (%)	-13.1%	-13.1%	-13.1%
Liquid Assets to deposits & borrowings (x)	14.7	17.6	1.1

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

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	**Appendix III**
Name of Rated Entity	Advans Pakistan Microfinance Bank Limited (APMBL)
Sector	Micro Finance Bank (MFB)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
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.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
4/25/2018	BBB+	A-3	Stable	Reaffirmed
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