RATING REPORT

Advans Pakistan Microfinance Bank Limited

REPORT DATE:

May 27, 2019

RATING ANALYST:

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RATING DETAILS				
	Latest Rating		**Previous Rating**	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-3	BBB+	A-3
Rating Outlook	Stable		Stable	
Rating Date	*April 26, 2019*		*April 25, 2018*	

COMPANY INFORMATION	
Incorporated in 2012	**External auditors:** A. F. FERGUSON & CO., Chartered Accountants
Public Limited 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) https://www.vis.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.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 37 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.

RATING RATIONALE

Advans Pakistan Microfinance Bank Limited (APMBL) is engaged in provision of microfinance banking and related services to the poor and underserved segment of the society. At present, the bank operates with a branch network of 13 (2018: 11; 2017: 8) branches. APMBL is targeting to commence operations as a National Microfinance Bank by 2020.

Rating Drivers

Sponsor Profile: Shareholding of the bank is vested with Advans SA Sicar (Advans SA) and Netherland Finance Company (FMO). Advans SA is the majority shareholder with 75% stake, while the remaining shareholding is held by FMO. The assigned ratings reflect sound profile of the sponsors, which have demonstrated commitment in form of both technical and financial assistance to APMBL in past. VIS expects this support to continue in future.

Credit Risk: Monthly disbursements picked up pace in 2018 by increasing to Rs. 132m (2017: Rs. 70m) on average basis in 2018. Increase in disbursements was a function of higher productivity, growth in the number of loan officers (LOs), and expansion in branch network. Resultantly, net financing portfolio increased considerably to Rs. 978.0m (2017: Rs. 558.6m) by end-2018. Management is expecting portfolio size to double by end-2019. Product wise concentration continues to on the higher side with Advans Tijarat representing 72% (2017: 76%) of the gross loan portfolio. Going forward, management is planning to establish a separate agricultural loan product, which will reduce product wise concentration as agriculture loans are currently a part of Tijarat loan portfolio. With growth in portfolio, PAR 30 and incremental infection also grew to 2.8% (2017: 2.2%) and 4.8% (2017: 3.5%) in 2018. Asset quality indicators have weakened due to ongoing anti encroachment drive and external factors affecting milk industry. Improvement in asset quality indicators is considered important from ratings perspective.

Liquidity: Liquidity profile of the bank depicts room for improvement on account of high concentration in deposit base and limited quantum of liquid assets in relation to deposits and borrowings. Deposit base of the bank registered sizeable growth to Rs. 552.3m (2017: Rs. 301.6m) primarily on the back of growth in fixed deposits and current accounts. Despite improving on yearly basis, concentration in deposits continues to remain on the higher side with top 5 depositors accounting for 40% (2017: 48%) of the total deposits at end-2018. Management also utilized borrowings to the tune of Rs. 100m (2017: nil) to fund further growth in advances. Liquid assets in relation to deposits and borrowings witnessed sizeable decline as excess liquidity was deployed to fund growth in advances portfolio. In view of the targeted growth in advances portfolio, management is also aiming sizeable growth in the deposit base primarily through new depositors in order to reduce deposit concentration. Achieving projected growth in deposit base while improving deposit mix and reducing concentration in deposits is considered important from ratings perspective.

Profitability: While the operating loss has persisted, the trend of reduction in the quantum of loss has also continued as operational loss was reported lower at Rs 76.9m (2017: -131.1m) in 2018 vis-à-vis the preceding year. Management's is expecting the bank to become profitable in 2019 on account of growth in advances portfolio, timely achievement of branch expansion milestones, and implemented measures to reduce turnover in loan officers. Overall net profit is budgeted at Rs. 6.5m in 2019. Reversing trend in operating losses is considered important from a ratings perspective.

Capitalization: With continuation of losses, overall equity base witnessed reduction to Rs. 511.5m (2017: Rs. 630.2m). In order to remain compliant with the Minimum Capital Requirement of Rs. 500.0m, Advans SA has agreed to inject equity of Rs. 70.0m in 2019. Management is awaiting regulatory approval in this regard. Capital Adequacy Ratio (CAR) (2018: 43%; 2017: 89%) 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.

Advans Pakistan Microfinance Bank Limited Appendix II

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**2016**	**2017**	**2018**
Total Investments	59.1	-	-
Net Advances	207.6	558.6	978.0
Cash and Bank Balances	319.4	322.2	130.2
Total Assets	684.5	1,003.1	1,296.6
Deposits	21.5	301.6	552.3
Borrowings	-	-	100.0
Tier-1 Equity	603.9	624.5	510.3
Net Worth	615.2	630.2	511.5
CAR	113.0%	89.0%	43.0%
INCOME STATEMENT	**2016**	**2017**	**2018**
Net Mark-up Income	78.3	138.3	265.5
Net Provisioning / (Reversal)	12.8	11.3	33.6
Non-Markup Income	23.6	41.4	56.8
Operating Expenses	246.6	302.8	402.1
Recurring Income	93.4	164.8	314.0
Core Earnings	(150.3)	(131.1)	(76.9)
Profit/ (loss) after tax	(205.9)	(129.4)	(114.2)
RATIO ANALYSIS	**2016**	**2017**	**2018**
CA (%)	44.0%	8.5%	16.4%
CASA (%)	100.0%	62.1%	47.5%
Gross Infection (%)	2.6%	2.2%	2.8%
Net Infection (%)	1.4%	1.5%	1.7%
Incremental Infection (%)	4.9%	3.5%	4.8%
Net NPLs to Tier-1 Capital (%)	0.5%	1.4%	3.3%
Provisioning Coverage (%)	80.9%	73.8%	72.1%
Advances to Deposits (x)	9.88	1.88	1.81
Return on markup bearing assets (%)	16.7%	23.1%	37.5%
Cost of Funds (Deposits) (%)	4.6%	4.9%	10.8%
Markup Spreads (%)	12.1%	18.3%	26.8%
OSS (%)	38.3%	55.7%	80.3%
ROAA (%)	-33.0%	-15.3%	-9.9%
Liquid Assets to deposits & borrowings (x)	17.6	1.1	0.2

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix III

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 IV
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	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
4/26/2019	BBB+	A-3	Stable	Reaffirmed
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

Instrument Structure	N/A
Statement by the Rating Team	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	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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