

RATING REPORT

ASA Pakistan Limited

REPORT DATE:

June 29, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB+	A-3
Rating Outlook	Stable	
Rating Date	June 23, 2017	

COMPANY INFORMATION

Incorporated in 2008	External auditors: Ernst & Young Ford Rhodes Chartered Accountants
Unlisted Public Limited Company	Chairman of the Board: Mr. Md. Shafiqul Haque Choudhury
Key Shareholders (with stake 5% or more): ASA International Holding – 99.9%	Chief Executive Officer: Md. Farid Ahmed

APPLICABLE METHODOLOGY(IES)

Methodology: Microfinance Banks (June 2016)

<http://www.jcrvis.com.pk/docs/Meth-MFBs201606.pdf>

ASA Pakistan Limited

OVERVIEW OF THE INSTITUTION

In March 2008, ASA Pakistan Limited (ASA Pakistan) was incorporated as an unlisted public limited company. It is licensed to operate as a microfinance institution (MFI) under Company's Ordinance, 1984.

Profile of Chairman

Mr. Md. Haque Choudhury serves as Chairman of the Board. He is founder and president of ASA with experience spanning over 35 years. Prior to founding ASA, Mr. Choudhury earned a Master's degree in Sociology from Dhaka University.

Profile of CEO

Mr. Md. Farid Ahmed possesses over 24 years of experience in microfinance sector in different countries including Bangladesh, the Philippines, Cambodia and Pakistan, and was recently appointed as CEO of ASA Pakistan. Mr. Ahmed joined ASA in 1996 and has since been associated with the group.

Financial Snapshot

Net Equity: 2016 – Rs. 1,457m, 2015 – Rs. 1,356m

Net Profit: 2016 – Rs. 717m, 2015 – Rs. 511m

RATING RATIONALE

Incorporated in 2008, ASA Pakistan Limited (ASA Pakistan) holds a national license from Securities & Exchange Commission of Pakistan to operate as a microfinance institution (credit only) (MFI). ASA Pakistan's application for conversion into a microfinance bank (MFB) is under consideration at State Bank of Pakistan (SBP). As on December 2016, ASA Pakistan operated out of 230 branches spread across Sindh and Punjab. The company aims to improve socioeconomic condition of low income individuals through provision of microfinance facilities.

The company is a wholly owned subsidiary of ASA International Holding (ASAI). ASAI is backed by Catalyst Microfinance Investors (CMI), a microfinance investment company incorporated in Mauritius. CMI has \$125.0m in committed capital; it is dedicated to investing in MFIs following the ASA microfinance methodology.

Key Rating Drivers:

- Sponsor Support:** Assigned ratings of ASA Pakistan factor in demonstrated funding support from its sponsor, ASAI. Along with financial support, ASAI also provides technical assistance by deploying key management on its payroll (sourced via of ASA Bangladesh (ASA)). The ratings draw comfort from ASA Pakistan's 8 year experience in the microfinance sector.
- Conversion to MFB:** In October 2016, the company applied for an MFB license; approval of the same is awaited from regulator. The company envisages conducting a bullet transformation into a bank. Given the regulatory environment enforced by State Bank of Pakistan (SBP), developments in this regard will need to be tracked over time.
- Governance and Management Profile:** ASA Pakistan has a well-defined organizational structure and an adequate governance framework. Post conversion to MFB, governance structure is expected to be strengthened through establishment of board committees in accordance with Code of Corporate Governance and international best practices. Moreover, policy framework of the company has been adopted from ASAI and is being realigned with SBP requirements. In line with strategic plans, ASA Pakistan would need to strengthen its current team along with key functions such as internal audit & compliance, risk management and information technology systems; these are currently being revamped for ensuring an improved control environment.
- Credit Risk:** Ratings incorporate improvement in financial performance of the company since 2012 marked by notable growth in loan portfolio and healthy asset quality. Gross financing portfolio is projected at Rs. 12.1b by end-CY20. Introduction of new loan products, increase in number of hub branches, service centers, loan officers and average disbursement size are expected to aid in growth of portfolio. Subject to attainment of MFB license, ASA Pakistan plans to develop a diversified commercial loan portfolio which will include micro and small enterprise-loans, equipment leasing, livestock and agriculture financing. However, achievement of these growth targets is largely subject to a successful transformation into MFB.
- Capitalization:** Ratings derive strength from sound capitalization indicators of the company. Total equity has increased from Rs. 629.4m in CY12 to Rs. 1.5b at end-December 2016. As per business plan, the sponsor plans to inject equity so that the company meets regulatory requirement for minimum capital of MFBs. Therefore, paid-up capital of ASA Pakistan will need to be increased by an additional Rs. 627.4m.
- Liquidity:** With quantum of liquid assets being on the lower side, liquidity indicators show room for improvement. In line with growth plans, ASA Pakistan has projected to maintain 10% of deposits and other accounts in government securities. Liquidity needs to be monitored on timely basis to comply with SBP requirements, going forward. These initiatives are dependent on ASA Pakistan's ability to develop strong internal controls.
- Funding:** Around one-third of funding comprises foreign currency loans from sponsor; remaining borrowings have been obtained from a commercial bank and a non-profit organization. As per business plan, management envisages reduction of borrowings from ASAI, while simultaneously increasing debt obtained from third parties (nationally and internationally). Furthermore, ASA Pakistan plans to mobilize deposits once MFB license is granted by SBP.

JCR-VIS Credit Rating Company Limited

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

ASA Pakistan Limited

Annexure I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	Dec 31, 2016	Dec 31, 2015	Dec 30, 2014
Loans and advances - net	5,622.6	3,796.3	2,711.8
Total Assets	6,103.6	4,172.8	2,810.5
Borrowings	4,214.5	2,513.5	1,437.1
Net Worth	1,482.0	1,356.3	1,140.2
INCOME STATEMENT	Dec 31, 2016	Dec 31, 2015	Dec 30, 2014
Net Mark-up Income	1,817.5	1,281.1	890.1
Net Provisioning / (Reversal)	27.5	12.1	14.3
Non-Markup Income	(81.7)	(53.9)	47.5
Administrative Expenses	598.7	392.8	318.2
Profit after Tax	741.3	511.1	391.8
RATIO ANALYSIS	Dec 31, 2016	Dec 31, 2015	Dec 30, 2014
Gross Infection (%)	0.22%	0.28%	0.21%
Net Infection (%)	0.2%	0.18%	0.12%
Markup Spreads (%)	35.1%	35.4%	35.6%
OSS (%)	303.9%	326.2%	280.2%
Return on Average Assets (%)	14.4%	14.6%	16.4%
Liquid Assets to borrowings (%)	0.05%	0.22%	0.09%

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.

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

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	ASA Pakistan Limited (ASA Pakistan)				
Sector	Microfinance 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				
	23-June-17	BBB+	A-3	Stable	Initial
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.				
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