RATING REPORT

ASA Pakistan Limited

REPORT DATE:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity Rating	BBB+	A-3	BBB+	A-3
Rating Date	*Aug 16, 2018*		*June 6, 2017*	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY(IES)

Methodology: Micro Finance 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. Shafiqual Haque Choudhry founded one of the largest MFI, ASA which serves 4.5 million poor households, 5.5 million members in Bangladesh through a sustainable program of providing cost-effective financial services. He also co-founded, Catalyst Microfinance Investors (CMI) and ASA International Holding, both registered in Mauritius as an equity investment company and holding company to accelerating the development of microfinance in Asia and Africa.

Profile of CEO

MR. Md. Farid Ahmed is a seasoned professional with over 24 years of professional experience in field of Microfinance and Social development sector. He has been associated with ASA Group since 1996.

RATING RATIONALE

Sound profile of the sponsor and considerable operational history of the company

ASA Pakistan is a wholly owned subsidiary of ASA International Holding (ASAI). The assigned ratings reflect sponsor strength and expertise of ASAI, which is active in 12 countries of Asia and Africa with the objective of establishing Greenfield MFIs. ASAI has demonstrated funding support to ASA Pakistan in the form of both equity and debt financing. Moreover, ASAI also provides technical assistance by deploying key management personnel (sourced via of ASA Bangladesh (ASA)), who are well versed with ASAI lending methodology. JCR-VIS expects sponsor support to continue in future. The ratings also draw comfort from ASA Pakistan's 9 year experience in the microfinance sector.

Impending conversion of the company to a Microfinance Bank (MFB)

The company applied for an MFB license; approval of the same is awaited from regulator. As per management, State Bank of Pakistan (SBP) (regulator) is currently evaluating the application and has asked the management to submit some revised documents such as latest financial projections with recent data which the management has already submitted.

Growth in financing portfolio persists, while asset quality indicators also remain sound vis-à-vis peers

Gross advances portfolio of the company augmented to Rs. 7.4b (2016: Rs. 5.7b) at end-2017, thereby depicting a growth of 30.4%. Total number of active borrowers has also witnessed growth during the outgoing year as the same increased to 364,466 (2016: 322,015). Out of three loan products offered by the institution, Small Loans (SL) product remains the flagship product as the same accounted for 93.9% (2016: 94.6%) of total outstanding portfolio at end-2017. Although average loan size of the company trended upwards to 20,227 (2016: 17,560), the same is well below the industry average, indicating lower risk per loan and considerable room for growth. With growth witnessed in portfolio, quantum of Non-Performing Loans (NPLs) also increased to Rs. 20.5m (2016: Rs. 12.5m). Resultantly, gross, net and incremental infection ratios increased marginally to 0.3% (2016: 0.2%), 0.2% (2016: 0.1%) and 0.6% (2016: 0.5%), respectively. However, the same remain on the lower side vis-à-vis peers. Total net outstanding microcredit portfolio was reported at Rs. 8.2b (2017: Rs. 7.3b; 2016: Rs. 5.6b).

Liquidity profile witnessed improvement due to increase in quantum of liquid assets. However, the same is expected to decline in line with management's strategy of keeping advances on the higher side.

Liquid assets including cash and bank balances demonstrated sizeable increase to Rs. 2,195.3 (2016: Rs. 298.0m) at end-2017. This increase in cash and bank balances is attributable to covenant of maintaining cash collateral by one of the lenders and receipt of funding near year end. Since growth in liquid assets outweighed the growth in borrowings, liquid assets in relation to borrowings increased to 30.8% (2016: 7.1%) at end-2017. Liquid assets to total liabilities may decline, going forward, in line with management's strategy of keeping advances as proportion assets on the higher side.

Borrowings remain the primary source of funding growth in the loan portfolio. At end-2017, total borrowings of the company increased considerably to Rs. 7.1b (2016: Rs. 4.2b) vis-à-vis the preceding year. Management has reduced the quantum of borrowings acquired from its sponsor, ASAI; however, additional funds have been mobilized from other foreign and local financial institutions. Gearing and debt leverage ratios of the company stood at 2.8x (2016: 2.8x) and 2.9x (2016: 3.1x) at end-2017. As per management, borrowings will continue to remain the major source of funding of the company.

Volume driven growth was observed in profitability. The same trend is expected to persist in future provided that asset quality indicators are maintained and administrative expenses branches are kept under control.

Growth in the profitability of the company continued with increase in the quantum of average earning assets. Spreads were reported lower at 29.6% (2016: 33.6%) due to lower return on markup bearing assets and higher cost of borrowings. Operating self-sufficiency ratio of the company depicted improvement to 305.3% (2016: 294.9%) in 2017 on account of lower growth in administrative expenses vis-à-vis the recurring income. The same depicts considerable cushion as core income is more than sufficient to cover administrative expenses. Profit before tax and profit after tax amounted to Rs. 1,544.3 (2016: Rs. 1,102.3m) and Rs. 1,214.9m (2016: Rs. 741.3m), respectively in 2017. The management has decided to reduce the rates charged on advances by 1% in2019; hence, spreads are expected to decrease in 2019. However, growth trend in profitability is expected to persist due to volumetric growth in portfolio provided that asset quality indicators are maintained and growth in administrative expenses is kept under control.

Capitalization indicators remain sound and may witness further improvement given the planned equity injection in view of the ongoing conversion to a MFB

Capitalization indicators of the company improved on the back of internal capital generation. In view of the covenant imposed by one of the lenders to maintain debt to equity ratio of 3.0x and additional regulatory capital requirement for microfinance banks, the management reduced the dividend payout ratio in recent years. After conversion into a MFB, additional equity injection is expected from ASAI to increase the paid up capital of ASA Pakistan to Rs. 1.5b, which is above the regulatory requirement of Rs. 1.0b for a microfinance bank operating at a national level. With higher earnings projected over next four years, capitalization is likely to depict an increasing trend.

ASA Pakistan Limited — Annexure I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2015**
Loans and advances - net	7,323.1	5,607.2	3,796.3
Total Assets	9,888.9	6,103.6	4,172.8
Borrowings	7,099.9	4,214.5	2,513.5
Net Worth	2,527.8	1,482.0	1,356.3
INCOME STATEMENT	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2015**
Net Mark-up Income	2,474.0	1,817.7	1,281.1
Net Provisioning / (Reversal)	6.5	27.5	12.1
Non-Markup Income/(Loss)	(226.8)	(46.4)	(53.9)
Administrative Expenses	733.7	598.7	392.8
Profit before Tax	1,544.3	1,102.3	789.5
Profit after Tax	1,214.9	741.3	511.1
RATIO ANALYSIS	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2015**
Gross Infection (%)	0.28%	0.22%	0.28%
Net Infection (%)	0.16%	0.13%	0.18%
Markup Spreads (%)	29.6%	35.1%	35.4%
OSS (%)	305.3%	294.9%	326.2%
Return on Average Assets (%)	15.7%	14.4%	14.6%
Liquid Assets to borrowings (%)	30.9%	7.1%	0.22%

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	ASA Pakistan Limited (APL)
Sector	Micro Finance Institution (MFI)
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				
16-Aug-18	BBB+	A-3	Stable	Reaffirmed
6-June-17	BBB+	A-3	Stable	Initial