RATING REPORT

ASA Pakistan Limited

REPORT DATE:
May 7, 2019

RATING ANALYSTS:
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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	*Apr 30, 2019*		*Aug 16, 2018*	
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) ***https://www.vis.com.pk/kc-meth.aspx***

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

Continuing support from the parent in terms of financial and technical assistance

The assigned ratings take into account the sound sponsor profile of ASA Pakistan Limited (ASA Pakistan). Being part of a large global network, ASA Pakistan benefits from the multi-jurisdiction experience of ASA International Holding (ASAI). ASAI has investments in green field microfinance projects in 12 countries across Asia and Africa. Over the years, ASAI has demonstrated support in terms of financial and technical assistance to ASA Pakistan; ASAI, along with equity, has also extended debt financing to ASA Pakistan for funding purposes. Moreover, ASAI also ensures deployment of key management personnel who have been associated with the group for an extended time period. It is licensed to operate on a nationwide basis, however, currently functions in Sindh and Punjab; Minimum Capital Requirement of national level is Rs. 1b.

Status of the conversion of ASA Pakistan into a Microfinance Bank (MFB)

During 2016, 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. As per management, all requirements specified by the regulator in regard to conversion have been complied with; decision is expected in a month's time. Ratings are dependent upon conversion of the institution into a regulated entity in the ongoing year; given that business volumes have grown substantially over time desiring the entity to remain in a more robust regulatory regime.

Financing portfolio continues to grow on the back of growing branch network in Sindh and Punjab while asset quality indicators remain sound vis-à-vis peers

Gross Loan Portfolio (GLP) of the company increased significantly to Rs. 9.4b in 2018 on the back of higher number of loans disbursed. Flagship product of the company remains its smaller ticket sized loans. ASA Pakistan follows a similar lending methodology to its parent and associates. While it lends on an individual basis, collections / recoveries are made in groups in order to ensure 100% recoveries. The group is also helpful in identifying potential clients and collecting critical credit intelligence which ultimately ensure 100% loan recoveries. Clients are not required to pay loan installment any other client but they facilitate collection efforts through providing information. In order to improve its productivity indicators, the company has targeted to improve the number of clients per Loan Officer to 417 by end-2019. With significant growth in the portfolio, ASA Pakistan reported fresh Non-Performing Loans (NPLs) amounting to Rs. 15.8m; however, infection levels remained at minimal levels.

Liquidity profile and leverage indicators compare less favorably in comparison to peers

Liquid assets for the company primarily include cash and bank balances and amounted to Rs. 1.5b (2017: Rs. 2.2b) at end-2018. With decline in liquid assets, liquidity profile of the company deteriorated; liquid assets as a proportion of borrowings declined to 19.0% (2017:

30.8%) at end-2018. Moreover, higher quantum of gross loans was largely funded by both local and foreign denominated borrowings mobilized by the company, during 2018. Given the recent depreciation in rupee-dollar parity, the company faces significant risk on its foreign denominated borrowings. In prior years, the company would utilize forward contracts in order to hedge this currency risk. However, to mitigate the currency risk on foreign currency loans, the company is considering replacing its foreign loans with domestic ones. Progress in this regard will need to be seen over time. ASA Pakistan also incurred exchange rate losses on the same, during 2018. Gearing and debt leverage ratios of the company improved marginally to 2.5x (2017: 2.8x, 2016: 2.8x) and 2.7x (2017: 2.9x, 2016: 3.1x) at end-2018. As per management, borrowings will continue to remain the major source of funding of the company till the MFB license is received.

Profitability levels also improved on the back of volumetric growth in advances and maintained administrative expenses

Despite higher quantum of advances, profitability levels of the company amounted to Rs. 1.16b (2017: Rs. 1.19b) in 2018. Profit after tax was marginally lower than the prior year given higher provisioning costs, personnel expenses, cost for enhanced due diligence, IT development & networking cost and taxation. 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. Nonetheless, operating self-sufficiency ratio of the company depicted further improvement from 323.8% in 2017 to 378.4% in 2018. The same depicts considerable cushion as core income is more than sufficient to cover administrative expenses. Ability to maintain these performance metrics will be a key rating driver.

Capitalization indicators remained sound on a timeline basis; management expects these levels to improve given the anticipated profitability levels and planned equity injection in view of the ongoing conversion to a MFB

Capitalization indicators of the company have primarily been a function of growth in its lending portfolio. 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. During 2018, the company increased its dividend payout ratio considerably to 47.5% vis-à-vis 28.4% in the corresponding period last year. However, payout ratios are expected to decrease once ASA Pakistan is converted into a microfinance bank.

ASA Pakistan Limited Annexure I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2018**	**Dec 31, 2017**	**Dec 31, 2016**
Loans and advances - net	9,307.2	7,323.1	5,607.2
Total Assets	11,610.0	9,888.9	6,103.6
Borrowings	7,940.2	7,099.9	4,214.5
Net Worth	3,126.2	2,527.8	1,482.0
INCOME STATEMENT	**Dec 31, 2018**	**Dec 31, 2017**	**Dec 31, 2016**
Net Mark-up Income	2,897.4	2,474.0	1,817.7
Net Provisioning / (Reversal)	34.3	6.5	27.5
Non-Markup Income/(Loss)	(137.1)	(226.8)	(46.4)
Administrative Expenses	942.3	733.7	598.7
Profit before Tax	1,783.7	1,544.3	1,102.3
Profit after Tax	1,158.6	1,214.9	741.3
RATIO ANALYSIS	**Dec 31, 2018**	**Dec 31, 2017**	**Dec 31, 2016**
Gross Infection (%)	0.40%	0.28%	0.22%
Net Infection (%)	0.30%	0.16%	0.13%
Markup Spreads (%)	16.9%	29.6%	35.1%
OSS (%)	378.4%	305.3%	294.9%
Return on Average Assets (%)	21.3%	15.7%	14.4%
Liquid Assets to borrowings (%)	19.0%	30.9%	7.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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 III

Name of Rated Entity	ASA Pakistan Limited (APL)
Sector	Micro Finance
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
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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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-Apr-19	BBB+	A-3	Stable	Reaffirmed
16-Aug-18	BBB+	A-3	Stable	Reaffirmed
6-June-17	BBB+	A-3	Stable	Initial