

## RATING REPORT

## ASA Pakistan Limited

**REPORT DATE:**

April 29, 2022

**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 29, 2022		Apr 29, 2021	
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. Dirk Machgielis Brouwer
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Saeed Uddin Khan
ASA International – 99.9%	

## APPLICABLE METHODOLOGY(IES)

Methodology: Micro Finance Banks (June 2019)

<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. Dirk Machgielis Brouwer co-founded ASA International in 2007 and has since as its Executive Director and Chief Executive Officer. Prior to 2007, he had a distinguished career in investment banking spanning over 20 years.

#### Profile of CEO

Mr. Saeed Uddin Khan brings with him 33 years of diversified and senior management experience in different banks and financial institutions.

### RATING RATIONALE

ASA Pakistan Limited ('ASA Pakistan' or 'the Company') is a subsidiary of ASA International. It is a for-profit, non-depository Microfinance Institution, operating as a lending company and regulated by the Securities and Exchange Commission of Pakistan. As on December 2021, ASA Pakistan operated out of 325 branches spread across Sindh and Punjab (Dec'20: 292). The Company aims to improve socioeconomic condition of low income individuals through provision of microfinance facilities.

#### Business Update:

##### Conversion to a Micro Finance Bank (MFB)

- In Q1'2020, SBP issued an NOC to the company for conversion into MFB, subsequently as per standard procedure, it was followed by an SBP inspection, which was concluded in Q3'2021. At present, the management is awaiting the MFB license from SBP.

##### Credit risk profile of advances portfolio has depicted improvement

- Following 6% growth in advances in 2020, ASA posted 36% growth in advances for 2021.
- The advances portfolio is largely concentrated in a single product called 'Small Loan', which constitutes 92% of the portfolio. Advances remain concentrated in small-ticket category. As of Dec'21, advances outstanding in 25k-50k and 50k-75k categories comprised 66% and 27% of the portfolio respectively.
- ASA Pakistan 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 ensures strong recovery.
- ASA's entire loan book comprises clean unsecured lending. Credit risk is mitigated by steering clear of risky sectors like crops and livestock and being exposed to relatively lower credit risk by lending to small merchants like tailors, wholesalers etc.
- For 2020, a significant portion of ASA's portfolio was restated into Stage 2 category. As per management, this was mainly on account of the moratorium allowed by ASA for a one-time deferral of loan by one month. Accordingly these loan deferrals were moved into Stage 2 category in line with IFRS 9 requirements.
- Subsequent to the moratorium of one month, loan recoveries have remained strong, as illustrated by the movement in infection ratio.
- Overall infection and provisioning coverage has posted improvement on a timeline, while provisioning coverage has also improved. In addition to Stage 2 & 3 ECL allowance, the Company is also maintaining general allowance on Stage 1 equaling 1.4% of the gross portfolio.

**Table 1: Advances Portfolio**

	Dec'20	Dec'21
<b>Gross Advances</b>	<b>10,291</b>	<b>14,001</b>
<b>Gross Infection</b>	<b>60.3%</b>	<b>0.3%</b>
- Stage 2	57.3%	0.1%
- Stage 3	3.0%	0.2%
<b>Provisioning Coverage (Stage 2 &amp; 3)</b>	<b>4.0%</b>	<b>30.0%</b>
<b>Net Infection (Stage 2 &amp; 3)</b>	<b>59.5%</b>	<b>0.2%</b>

##### Liquidity & Capitalization expected to be reinforced

- Liquid assets primarily include cash and bank balances and amounted to Rs. 819m (Dec'20: Rs. 905m) as at Dec'21. Overall ratio of liquid assets to borrowings has remained at similar level and is considered to be on the lower side (Dec'21: 14.0%; Dec'20: 13.3%).
- The asset base is largely funded by foreign denominated borrowings. As of Dec'21, 92% of the borrowings were foreign currency denominated. The management has a forward currency contract in place to hedge currency risk.
- ASA Pakistan's gearing remained stable at 1.3x, which is considered moderate and aligned with the benchmark for the assigned rating.

- There are the sizeable borrowing maturities falling in 2022, the management would manage the repayment of current maturities by raising new international fundings, for which the company also has ready lines available to the tune of Rs 5.5b against current maturities of 3b falling in 2022.
- There are plans to reinforce capitalization through the planned equity infusion, subsequent to acquiring the MFB license.

#### Profitability normalized to historical trend on the back of higher spread

Table 2: Profitability Indicators

	2019	2020	2021
Spreads	23.2%	24.5%	27.1%
OSS	419.4%	327.7%	354.9%
PAT	1,383	949	1,655

- Profitability indicators of ASA Pakistan depicted improvement in 2021, with RoAA reverting to historical trend of 12%. The improvement was mainly supported by strong reduction in cost of borrowings, as a result of which the ASA's spreads improved. Improved spreads along with volumetric growth in advances allowed the Company to grow its net interest margin by 39%.
- The administrative expenses were higher by 20%, being driven by branch expansion and expenses related to acquisition of MFB license.
- Given the strong growth in income vis-à-vis expense base, the OSS depicted improvement and is considered to be adequately high. Overall profitability indicators of the Company compares favorably to the industry.

#### Key Rating Drivers:

##### Experienced board and management team; sponsor support remains a credit strength.

- ASA Pakistan's senior management and Board of Directors are experienced professionals with considerable experience in the field of microfinance.
- The ratings also draw comfort from ASA Pakistan's more than decade spanning experience in the microfinance sector.
- ASA Pakistan continues to receive financial and technical assistance from ASA International Holding (ASAI). ASAI is backed by ASA International Group Plc, a microfinance company, listed on London Stock Exchange, UK.

##### Rating is constrained by liquidity indicators and composition of borrowings

- ASA Pakistan's funding profile mainly constitutes commercial borrowing arrangements, as it does not have regulatory permission to raise deposits. With liquid assets, limited to less than 10% of the aggregate borrowings, the rating reflects low liquidity indicators of the Company.
- Furthermore, with more than 90% of the borrowings being foreign currency denominated, there is also inherent currency risk. Also, the maturity profile of the borrowings is not aligned with internal cash generation capacity, warranting improvement in the same. Going forward, both liquidity & capitalization is projected to be reinforced, with main shareholder being in agreement to inject Rs. 750m of additional capital, as and when MFB license acquisition process is concluded.

##### The assigned rating incorporates credit risk indicators of ASA Pakistan

- The assigned rating incorporates the asset quality of the institution. Infection level has improved on a timeline. Overall credit risk in the economy remains heightened given significant increase in cost of doing business, which is also reflected by the adverse infection trend in MFB industry.

##### Rating remains dependent on successful completion of conversion to MFB

- As per management, the SBP inspection of MFB license was undertaken last year, albeit a final MFB license approval is awaited.
- Rating is dependent upon conversion of the institution into a regulated entity; given that

business volumes have grown substantially over time desiring the entity to remain in a more robust regulatory regime.

**ASA Pakistan Limited**
**Annexure I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>			
<b><u>BALANCE SHEET</u></b>	<b>31-Dec-19</b>	<b>31-Dec-20</b>	<b>31-Dec-21</b>
Loans & Advances - net	9,612	10,015	13,791
Total Assets	11,230	11,826	15,859
Borrowings	6,767	6,465	8,491
Paid up Capital	745	745	745
Net Worth	3,862	4,835	6,571
<b><u>INCOME STATEMENT</u></b>	<b>31-Dec-19</b>	<b>31-Dec-20</b>	<b>31-Dec-21</b>
Net Mark-up Income	3,012	2,935	4,092
Net Provisioning / (Reversal)	127	385	243
Non-Markup Income/(Loss)	142	117	128
Administrative Expenses	1,034	1,237	1,490
Profit before Tax	1,947	1,342	2,341
Profit after Tax	1,383	949	1,655
<b><u>RATIO ANALYSIS</u></b>	<b>31-Dec-19</b>	<b>31-Dec-20</b>	<b>31-Dec-21</b>
Gross Infection (%) (Stage 2 & 3)	2.5%	60.3%	0.3%
Net Infection (%) (Stage 2 & 3)	1.5%	59.5%	0.2%
Markup Spreads (%)	23.2%	24.5%	27.1%
OSS (%)	419.4%	327.7%	354.9%
Return on Average Assets (%)	12.1%	8.2%	12.0%
Liquid Assets to borrowings (%)	13.3%	14.0%	9.6%
Gearing (x)	1.8	1.3	1.3
Current Ratio (x)	2.8	2.9	4.3

## 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](http://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](http://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](http://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 (ASA)				
Sector	Micro Finance				
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				
	29-Apr-22	BBB+	A-3	Stable	Reaffirmed
	29-Apr-21	BBB+	A-3	Stable	Maintained
	30-Apr-20	BBB+	A-3	Rating Watch-Negative	Maintained
	30-Apr-19	BBB+	A-3	Stable	Reaffirmed
	16-Aug-18	BBB+	A-3	Stable	Reaffirmed
	6-June-17	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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Due Diligence Meetings Conducted	Name	Designation		Date	
	Mr. Kamran Hussain	CFO		April 12, 2022	