RATING REPORT

Pakistan Mortgage Refinance Company Limited

REPORT DATE:
April 09, 2024

RATING ANALYST:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AAA	A-1+	AAA	A-1+
Rating Date	*April 09, 2024*		*April 14, 2023*	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** A. F. Ferguson & Co. Chartered Accountants
Public Unlisted Company	**Chairman of the Board:** Mr. Rehmat Ali Hasnie
Shareholders:	**Chief Executive Officer/Managing Director:** Mr. Mudassir H. Khan
Private & Public Sector Institutions – 71.14%	
Government of Pakistan – 28.86%	
Aggregate Public Sector Shareholding – 43.45%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Government Supported Entities
https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Pakistan Mortgage Refinance Company Limited

RATING RATIONALE

Pakistan Mortgage Refinance Company Limited (PMRC) was established by the State Bank of Pakistan (SBP) in 2015 as Pakistan's first mortgage refinance institution for provision of long-term funding to both conventional and Islamic Primary Mortgage Lenders. The Business Commencement Certificate was granted by SBP to PMRC on June 12, 2018. The ratings are underpinned by the Company's significant public sector shareholding coupled with strong government and regulatory support. The ratings also take into account the satisfactory policy framework, seasoned management team and robust risk management controls.

In the backdrop of the ongoing macroeconomic deterioration and suspension of previous housing initiatives, mortgage activity has witnessed a decline over the rating review period. While this is reflected in the limited growth in advances during CY23, the associated credit risk is considered minimal on account of sound portfolio quality indicators through strong risk management controls; maintenance of the same will be an important rating factor, going forward. Nonetheless, profitability metrics depicted an uptick owing to both business expansion and higher spreads. Spreads increased on account of enhanced yield on interest bearing assets – investment and advances – given increasing interest rate environment. The liquidity profile remains sound due to sizeable liquid assets relative to borrowings. Moreover, exposure to market risk is also on the lower side as government securities comprise the majority of the investment portfolio. Furthermore, capitalization indicators continue to be strong on the back of sizeable internal profit generation with the Capital Adequacy Ratio (CAR) expected to remain significantly above the regulatory requirement.

Key Rating Drivers

Business Risk

The Company's overall business risk is directly linked with the housing construction sector which is inherently cyclical in nature. Given the country's current challenging macroeconomic environment which is marred by soaring inflation, high interest rates, currency fluctuation, outstanding house financing contracted by around 3.2% YoY to Rs. 200b in CY23. This is also a reflection of the halt in government housing initiatives, specifically, the Naya Pakistan Housing Scheme and Mera Pakistan Mera Ghar (MPMG) Scheme. The ongoing macroeconomic difficulties coupled with uncertain policy decisions are expected to continue in the short-to-medium term, resulting in suppressed construction activity in the housing market and, thereby, mortgage demand. However, given that Pakistan's mortgage-to-GDP stands at about 0.28% in FY23, notably trailing South Asian peers such as Bangladesh and India which stand at 1.62% and 10%, respectively, there is considerable room for growth in the long-run.

The assigned ratings also continue to remain underpinned by PMRC's close linkages with the SBP and GoP due to its special policy role in facilitating home ownership & housing finance in the country and promoting the domestic capital market. The strong government and regulatory support are evident from the GoP bearing the foreign currency risk on the loan provided by the World Bank, inclusion of PMRC bonds in level 2A high quality liquid assets, exemption from maintenance of general reserve against portfolio refinanced by the Company and relaxation in meeting the minimum equity requirement during the first five years of operations; however, the Company achieved this threshold before the lapse of the grace period granted by GoP.

Limited growth in advances given macroeconomic challenges

The Company's total advances portfolio grew by only 2.2% to Rs. 34.4b by end-Dec'23 (CY22: Rs. 33.7b, CY21: Rs. 23.7b) as soaring interest rates, high inflationary pressure and erosion of disposable incomes discouraged mortgage financing activity over the rating

OVERVIEW OF THE INSTITUTION

Pakistan Mortgage Refinance Company Limited (PMRC) is an unlisted public company incorporated on May 14, 2015 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The Company has been notified as a Development Finance Institution by the Finance Division of the Government of Pakistan on October 27, 2017. The SBP granted the certificate of commencement of business with effect from June 12, 2018.

Profile of Chairman

Mr. Hasnie has been a member of the Board of PMRC since May 2015 and the Chairman of the Board of Directors since April 2017. He is a financial market professional with a MA in Development Banking from The American University (USA) and presently serving at National Bank of Pakistan (NBP) in the capacity of Chief Executive Officer & President. NBP is Pakistan's largest and most profitable public sector banks and is a listed company on the Pakistan Stock Exchange. Mr. Hasnie has held various senior management level positions during his years at NBP including the Group Chief of the Investment Banking Group, the Group Chief of the Inclusive Development Group (IDG) as well as the Acting Group Chief of the Corporate & Investment Group. He has over 26 years of work experience in the financial sector including stints in economics research, capital markets, investment banking, treasury and credit markets at various institutions in Pakistan. He has served on numerous Boards as a nominee Director of NBP including of Pakistan Mercantile Exchange Limited, Fauji Akbar Portia Marine Terminals Limited, Agritech Limited, First Credit Investment Bank Limited and First National Bank Modaraba.

Profile of CEO/Managing Director
Mr. Mudassir H. Khan is the Managing Director/CEO of Pakistan Mortgage Refinance Company Mr. Khan holds an Executive Masters in Business Administration from Stern School of Business, New York, USA and a Masters in Finance from St. John's University, New York, USA. He is also an Electrical Engineer from University of Oklahoma, USA. With over 30 years of diversified banking experience primarily covering Retail, Corporate & Investment Banking, Operations, Risk and Development Banking. Before joining PMRC, Mr. Khan worked with National Bank of Pakistan for four years as SEVP/Group Chief Retail & Commercial Banking and as Group Chief Payments & Digital Banking. Prior to that, he was with HBL for nine years, holding different portfolios as SEVP Group Head Global Operations, CIO, CCO and Head of Basel and Operational Risk. He also worked with the World Bank for more than fourteen years in the area of Financial Sector, South Asia Region, based in Pakistan and also worked in Afghanistan, Bangladesh, Nepal, Maldives; as well as in the Africa Region in Ghana, Uganda, Kenya and Sierra Leone. Before joining the World Bank, he worked in the field of Corporate and Investment Banking with Citibank, N.A and Bear Stearns in Pakistan and in USA.

Mr. Khan had been a speaker at many conferences locally and internationally related to housing finance, banking & digital transformation, banking operations and reforms and risk management. He had also served in many Boards as Director and was the Chairman of NBP Fullerton Asset Management (NAFA) and of First Women Bank Limited (FWBL). He is currently MD/CEO PMRC and member of the Board of Pakistan Microfinance Network as Independent, Non-Executive Director.

review period. The advances are distributed across 22 Conventional and Islamic Partner Financial Institutions (PFIs) and comprise refinance and prefinance loans in different segments including low and middle income, Business As Usual, Pensioner's Scheme, Government Employees Housing Scheme, Government Markup Subsidy Scheme, and Developer Finance Scheme. The majority of the loan portfolio, about 80.9% (CY22: 75.9%), comprises commercial banks followed by Housing Finance Companies at 9.8% (CY22: 11.6%) and microfinance banks at 9.4% (CY22: 12.6%). The overall loan portfolio also depicted a tilt toward Islamic advances which increased to 53.9% (CY22: 42.1%) Moreover, the credit risk emanating from the refinancing portfolio is considered minimal on account of financing with recourse to PFIs and 25% overcollateralization on Mortgage Loan Portfolio (MLP). Going forward, the management envisages disbursements to the tune of Rs. 10b during the ongoing year with the Company already signing refinancing term sheets with two major banks during 1QCY24. Consequently, the total loan portfolio is projected to expand to above Rs. 35b by end-Dec'24.

Higher profitability given enhanced spreads despite limited volumetric growth on advances

PMRC's net markup income increased by 61.9% to Rs. 3.4b during CY23 (CY22: Rs. 2.1b, CY21: Rs. 1.4b). This is largely on the back of both business expansion and enhanced spreads. The Company also registered non-markup income of Rs. 40.3m (CY22: Rs. 6.2m) which mainly constituted of a trustee fee for services rendered to the Credit Guarantee Trust in accordance with the agreement signed with the GoP. On the other hand, operating overheads increased to Rs. 603.1m (CY22: Rs. 417.4m) in tandem with inflationary pressure; nonetheless, the efficiency ratio depicted a timeline improvement to 17.4% (CY22: 19.7%) on the back of uptick in recurring income. Meanwhile, provisioning charges increased to Rs. 253.4m (CY22: Rs. 94.5m) as a precautionary measure against advances to non-banking financial institutions as the current challenging macroeconomic environment can adversely impact recovery from low/middle-income borrowers. The Company posted a healthy bottom-line of Rs. 2.6b (CY22: Rs. 1.6b) in CY23. Going forward, the management aims to also offer floating-rate terms for fresh advances instead of only fixed rates; the same is expected to have a positive impact on spreads.

Low credit risk on investment portfolio given concentration in government securities

The overall investment portfolio declined notably to Rs. 13.8b (CY22: Rs. 20.6b) largely on the account of a significant portion of PIBs reaching maturity over the rating review period. Additionally, T-Bill investments also decreased slightly to Rs. 8.9b (CY22: Rs. 9.4b) while the remainder of the investment portfolio comprised of Term Finance Certificates (TFCs) amounting to Rs. 399.8m (CY22: Rs. 303.2m). Given that the overall portfolio is dominated by government securities, the associated credit risk is considered minimal. However, as the aforementioned investments are categorized under available-for-sale (AFS) coupled with about 77.8% of PIBs offering fixed-rate returns at end-Dec'23, exposure to mark-to-market losses is present; nonetheless, the same is considered manageable given that 68.4% of the overall investment portfolio has a maturity of under 1 year. Going forward, the management plans to continue investments in government securities to capitalize on interest rate movements. Breakdown of investments is tabulated below:

	CY21		CY22		CY23	
	Rs. mln	**%**	**Rs. mln**	**%**	**Rs. mln**	**%**
T-Bills	-	-	9,416	45.8%	8,977	65.0%
PIBs	9,938	97.0%	10,845	52.7%	4,428	32.1%
TFCs	300	3.0%	303	1.5%	400	2.9%
Total	**10,238**	**100.0%**	**20,564**	**100.0%**	**13,805**	**100.0%**

Sound liquidity profile given sizeable liquid assets

The liquid asset coverage of borrowings depicted an uptick to 50.5% (CY22: 45.2%) at end-CY23 despite decline in the investment portfolio on account of notable increase in cash balances amounting Rs. 10.7b (CY22: Rs. 0.2b) following maturity of PIBs; the same is largely parked in TDRs and deposit accounts amounting to Rs. 6.4b and Rs. 4.2b, respectively.

Meanwhile, total debt increased to Rs. 41.6b (CY22: Rs. 38.9b) owing to higher repo borrowings of Rs. 8.9b (CY22: Rs. 5.9b). The Company has also issued debt instruments under its mandate of promoting the domestic capital markets with outstanding TFCs amounting to Rs. 18.7b; the same have a tenure of 3-10 years and fixed/floating markup rates between 8.41%-20.89%. PMRC has also issued Sukuks to the tune of Rs. 4.1b with 3-year tenure and fixed profit rates ranging from 8.25-8.63%. Moreover, borrowings also include subordinated loan of Rs. 9.9b at end-Dec'23 (CY22: Rs. 10.3b) which has been mobilized from the GoP under World Bank (WB) Housing Program; the same has fixed markup rate of 3% over a 30-year term with a 5-year grace on principal repayment with the GoP bearing the foreign currency risk on the WB borrowing.

Adequate capitalization levels

The Company's equity base augmented to Rs. 10.9b (CY22: Rs. 8.7b) by end-CY23 on the back of partial profit retention amidst dividend payout of Rs. 467.8m. As per regulatory requirement, PMRC was allowed to operate with a Minimum Capital Requirement (MCR) of Rs. 3.5b for the first 5 year of operations subject to restriction on dividend payout. After the initial five years, the MCR for PMRC is Rs. 6b; however, the Company achieved this threshold during 2021. Given projected growth and profitability, the equity base is expected to grow further, going forward. Moreover, the Capital Adequacy Ratio (CAR) has also depicted further improvement over the rating review period to 72.2% at end-Dec'23 (CY22: 64.4%) and is expected to remain strong and comfortably above the regulatory requirement over the rating horizon.

Pakistan Mortgage Refinance Company Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions) – Annexure I*

BALANCE SHEET	CY21	CY22	CY23
Investments	10,239	20,565	13,805
Net Advances	23,715	33,662	34,402
Cash and Bank Balances	15,490	226	10,657
Other Assets	767	1,101	1,696
Total Assets	**50,211**	**55,554**	**60,559**
Borrowings	35,187	38,940	41,649
Subordinated Loans	7,051	7,051	6,818
Other Liabilities	606	818	1,161
Total Liabilities	**42,844**	**46,809**	**49,628**
Paid Up Capital	6,238	6,238	6,238
Net Equity	**7,367**	**8,745**	**10,931**

INCOME STATEMENT	CY21	CY22	CY23
Mark-up/return/profit/interest earned	2,844	5,016	7,452
Mark-up/return/profit/interest expensed	(1,406)	(2,899)	(4,025)
Net Spread Earned	1,438	2,117	3,427
Non-Markup Income	3	6	40
Administrative/WWF expenses	(374)	(450)	(655)
Provisions and write-offs (net)	-	(95)	(253)
Profit/ (Loss) Before Tax	1,066	1,579	2,559
Profit / (Loss) After Tax	1,066	1,579	2,559

RATIO ANALYSIS	CY21	CY22	CY23
Capital Adequacy Ratio (CAR)	53.1%	64.4%	72.2%
Liquidity Coverage Ratio (LCR)	10544%	28091%	25131%
Net Stable Funding Ratio (NSFR)	134.0%	151.2%	131.5%
Leverage Ratio	15.9%	15.1%	16.5%
Efficiency	26.0%	21.2%	18.9%
Cash flow from operations	(3,475)	(10,684)	4,322
ROAA	2.7%	3.0%	4.4%
ROAE	15.8%	19.6%	26.0%
Liquid Assets to Deposits & Borrowings	60.9%	45.2%	50.5%

REGULATORY DISCLOSURES	Annexure II
Name of Rated Entity	Pakistan Mortgage Refinance Company Limited
Sector	Development Finance Institution (DFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
April 09, 2024	**AAA**	**A-1+**	**Stable**	**Reaffirmed**
April 14, 2023	AAA	A-1+	Stable	Reaffirmed
April 12, 2022	AAA	A-1+	Stable	Reaffirmed
April 02, 2021	AAA	A-1+	Stable	Reaffirmed
April 06, 2020	AAA	A-1+	Stable	Reaffirmed
May 07, 2019	AAA	A-1+	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.
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Due Diligence Meetings Conducted	

	Name	Designation	Date
1	Mr. Zafar Tirmizi	Head of Business	6th March, 2024
2	Ms. Farheen Amjad	Head of Finance	6th March, 2024