

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

RATING REPORT

Pak-Oman Microfinance Bank Limited

REPORT DATE:

May 03, 2016

RATING ANALYSTS:

Jazib Ahmed, CFA

jazib.ahmed@jcrvis.com.pk

Momina Masood

momina.masood@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-3	BBB+	A-3
Rating Outlook	Stable		Stable	
Rating Date	April 28, 2016		April 29, 2015	

COMPANY INFORMATION

Incorporated in 2006	External auditors: KPMG Taseer Hadi & Co., Chartered Accountants
Unlisted Public Limited Company	Chairman of the Board: H.E Yahya Bin Said Bin Abdullah Al-Jabri
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Munawar Suleman
<i>Sultanate of Oman –67%</i>	
<i>Pak-Oman Investment Company Limited –33%</i>	

APPLICABLE METHODOLOGY(IES)

Methodology: *Micro Finance Institutions (Oct 2003)* <http://jcrvis.com.pk/images/MicroFinance.pdf>

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OVERVIEW OF THE INSTITUTION

Pak-Oman Microfinance Bank (Pak-Oman) was incorporated in 2006 as an unlisted public company. Financial statements of the bank for CY15 were audited by KPMG Taseer Hadi & Co., Chartered Accountants.

RATING RATIONALE

Pak-Oman Microfinance Bank (Pak-Oman) is jointly owned by Pak-Oman Investment Company Limited (POICL) and Sultanate of Oman. Pak-Oman's portfolio includes nine products spanning from livestock to enterprise loans catering to both individuals and groups. Livestock Loans remained the largest in terms of advances as it accounted for one third of the total portfolio.

Rating Drivers

- **Sponsor support:** Ratings of Pak-Oman incorporate strong sponsor profile and demonstrated financial support of its parent entities.
- **Advances:** Gross advances have depicted a significant increase of 68% to Rs. 366m (CY14: Rs. 218m). Lending strategy of the bank entails shift in focus from individual to group loans. Going forward gross advances are projected to double over the next two years.
- **Non-Performing Loans:** Growth in Non-Performing Loans (NPLs) was significant compared to the increase in advances, resulting in gross infection of 8.9% (CY14: 1.6%) as at end-CY15. Furthermore, impairment has been witnessed in fresh lending which is also evident in significant increase in incremental infection to 11.5% (CY14: -15.9%) during CY15. Infection stood considerably higher than peer average of 3.5%, indicating the need to strengthen risk assessment and control measures. Growth in infection if not curtailed, could deteriorate the quality of the portfolio.
- **Operations:** Due to operational inefficiencies pertaining to multiple systems being used and utilization of hard copy for proposals, the bank takes substantially more time to disburse loans compared to peers. To improve turnaround time, Pak-Oman envisages delegation by introducing a cadre wise loan approval system, a shift to an integrated MIS and implementation of paperless environment in CY16; budget has been allocated for the same. Moreover, the bank aims to set up a recovery department which would segregate it from disbursement. This would result in improving control and efficacy of recovery.
- **Human Capital:** Around 75% of the employees are hired on contractual basis. Coupled with high turnover, Human Resource composition needs to be rationalized for commitment. Majority of senior management was inducted during CY15, stability of which is crucial for a company.
- **Capital Adequacy:** As of December 2015, Pak-Oman's Capital Adequacy Ratio stood at 157% (CY14: 210%), which is indicative of ample room for growth in advances portfolio.
- **Liquidity profile:** Liquidity profile is supported by sizable liquid assets carried on the balance sheet. Liquid assets totaled Rs. 654.8m (CY14: Rs. 790.8m) as at end CY15, constituting around 58% (CY14: 71%) of total assets.
- **Profitability:** In contrast to preceding years' trend, earnings were driven by mark up on both investments and advances. Although, the bank posted a maiden profit of Rs. 5.8m (CY14: Rs. Loss of 7.3m) for CY15, it was not able to meet the budgeted profit of Rs. 19.6m due to high provisions for NPLs.

Outlook

Although lending activities picked pace, the bank's performance will largely depend on materialization of measures undertaken to enhance operations. Furthermore, improving asset quality and profitability levels is considered imperative from a rating perspective.

Pak-Oman Microfinance Bank (Pak-Oman)

Annexure I

FINANCIAL SUMMARY			
	(amounts in Rs. Millions)		
<u>BALANCE SHEET</u>	2015	2014	2013
Net Investments	105	79	73
Net Financing	359	221	115
Lending to Financial Institutions	546	733	576
Total Assets	1,127	1,115	897
Total Deposits	25	22	29
Borrowings	0	0	0
Tier-1 Equity	1,047	1,039	858
Net Worth	1,074	1,069	819
<u>INCOME STATEMENT</u>	2015	2014	2013
Net Mark-up Income	168.4	119.6	98.8
Net Provisioning / (Reversal)	18.0	3.0	31.0
Non-Markup Income	23.9	13.6	8.6
Operating Expenses	162.5	129.0	120.7
Profit	5.7	(7.3)	(44.5)
<u>RATIO ANALYSIS</u>	2015	2014	2013
Gross Infection (%)	8.9%	1.6%	9.1%
Incremental Infection (%)	11.5%	-15.9%	14.8%
Provisioning Coverage (%)	20.6%	26.5%	15.3%
Net Infection (%)	7.2%	1.3%	7.8%
Net NPLs to Tier-1 Capital (%)	2.5%	0.2%	1.1%
Capital Adequacy Ratio (%)	156.9%	210.0%	246.0%
Cost of Funds (%)	1.1%	0.9%	1.2%
Markup Spreads (%)	16.0%	12.7%	12.2%
Efficiency Ratio (%)	86.9%	99.6%	114.9%
ROAA (%)	0.5%	-0.8%	-3.7%
ROAE (%)	0.5%	-0.7%	-3.4%
Liquid Assets to Total Deposit & Borrowings (%)	26.36	35.74	22.30

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure 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

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

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.

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.

JCR-VIS Credit Rating Company Limited

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REGULATORY DISCLOSURES				Annexure III	
Name of Rated Entity	Pak-Oman Microfinance Bank (Pak-Oman)				
Sector	Micro Finance 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
	<u>RATING TYPE: ENTITY</u>				
	28-April-16	BBB+	A-3	Stable	Reaffirmed
	29-April-15	BBB+	A-3	Stable	Reaffirmed
	29-April-14	BBB+	A-3	Stable	Reaffirmed
	29-April-13	BBB+	A-3	Stable	Reaffirmed
	30-April-12	BBB+	A-3	Stable	Reaffirmed
	29-April-11	BBB+	A-3	Stable	Reaffirmed
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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