

Advans Pakistan Microfinance Bank Limited

REPORT DATE:

May 12, 2016

RATING ANALYSTS:

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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 29, 2016		April 28, 2015	

COMPANY INFORMATION

Incorporated in 2012	External auditors: Deloitte Yousuf Adil & Co. Chartered Accountants
Limited Liability Company	Chairman of the Board: Mr. Claude Falgon
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Tariq Khan Baluch
Advans SA SICAR – 70.0%	
Netherlands Development Finance Company– 30.0%	

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

Advans Pakistan Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION

Advans Pakistan Microfinance Bank was incorporated in April 2012 as a public limited company. The objective of the bank is to serve under banked and poor populace through provision of microfinance services.

RATING RATIONALE

Advans Pakistan Microfinance Bank Limited (APMBL) operates under the jurisdictions of Microfinance Institutions Ordinance, 2001 and holds license to provide microfinance banking services in the province of Sindh. The bank has a distribution network of 4 branches, 2 permanent booths and 3 service centers in Karachi. In line with the group's strategy, operating model of the bank involves provision of microfinance services to Micro Small and Medium Enterprises (MSME) for working capital and investment requirements.

Key Rating Drivers

- Sponsor Support:** Assigned ratings of APMBL incorporate implicit support of bank's sponsors, Advans SA SICAR (Advans SA) and Netherlands Development Finance Company (FMO). Both sponsors possess extensive experience in the microfinance sector, as depicted by their presence in microfinance institutions in several countries. Along with financial support, the majority shareholder, Advans SA, also provides technical assistance to its affiliates through Horus Development Finance (HDF). Under this arrangement, Advans SA helps to build institutional capacity, including training and system development. In the coming year, Advans SA may also provide financial support in the form of equity injection to bring APMBL in compliance with Minimum Capital Requirement (MCR).
- Business volumes:** Gross Loan Portfolio (GLP) of the bank increased significantly in 2015 on the back of higher number of loans disbursed. Management plans to increase its average loan size in 2016. Furthermore, the bank has consolidated its unsecured lending products into a single product, 'Advans Tijarat', from April 2016 onwards. Management anticipates improvement in productivity indicators for the bank given changes in its network, HR organization and product design coupled with necessary staff training.
- Portfolio quality indicators:** Portfolio quality indicators regressed in 2015. Gross and net infection ratios witnessed an increase of more than twofold in the same period. Highest infection level was observed in gold backed portfolio. Moreover, pursuit of aggressive targets by the loan officer with disregard to borrower quality also translated into higher infection.
- Profitability:** Core earnings of the bank were primarily driven by revenue from GLP while investment income declined on account of maturity of government paper. Going forward, the management anticipates that return on advances will continue to generate a sizeable proportion of bank's top line. At present, APMBL is unable to generate positive bottom-line given that earnings are not adequate to provide coverage for operating expenses. As per projections, the management expects the bank to be profitable by end-2018.
- Capitalization:** With a history of operational losses, the bank's equity fell below the MCR of Rs. 500m by end-2015. In this regard, the management has obtained a waiver from State Bank of Pakistan (SBP) for compliance till June 30, 2016. APMBL is in the process of receiving capital from a new third shareholder. In case the said arrangement does not materialize in time, Advans SA, subject to the approval of its Board of Directors, will invest necessary funding in order for APMBL to meet MCR. In addition, SBP has also approved conversion of APMBL's outstanding liability related to Advans SA into equity.

JCR-VIS Credit Rating Company Limited

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

Advans Pakistan Microfinance Bank Limited

Appendix II

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Total Investments	-	147.1	576.7
Net Financing	181.2	98.5	42.1
Total Assets	562.7	619.8	760.5
Borrowings	-	-	-
Tier-1 Equity	469.6	547.3	636.2
Net Worth	486.6	568.5	636.2
INCOME STATEMENT	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Net Mark-up Income	82.7	65.3	61.0
Net Provisioning / (Reversal)	25.9	7.0	2.4
Non-Markup Income	20.6	20.4	2.1
Operating Expenses	215.0	166.8	160.5
Profit/ (loss) after tax	(77.7)	(88.9)	(100.4)
RATIO ANALYSIS	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Gross Infection (%)	11.6	4.2	6.0
Net Infection (%)	2.6	1.2	1.7
Net NPLs to Tier-1 Capital (%)	1.0	0.2	0.1
Markup Spreads (%)	15.0	8.0	8.5
OSS (%)	44.1	42.5	39.4
ROAA (%)	(13.1)	(12.9)	(12.6)
Liquid Assets to deposits & borrowings (%)	1468.8	2850.9	5951.2

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix III

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.

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

REGULATORY DISCLOSURES				Appendix IV	
Name of Rated Entity	Advans Pakistan Microfinance Bank Limited (APMBL)				
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
	RATING TYPE: ENTITY				
	4/29/2016	BBB+	A-3	Stable	Reaffirmed
	4/28/2015	BBB+	A-3	Stable	Reaffirmed
	4/25/2013	BBB+	A-3	Stable	Initial
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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