The Pakistan Credit Rating Agency Limited

Rating Report

AGAHE Pakistan

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Apr-2023	BBB-	A3	Stable	Maintain	-
29-Apr-2022	BBB-	A3	Stable	Upgrade	-
21-Aug-2021	BB+	A3	Positive	Maintain	Yes
21-Aug-2020	BB+	A3	Stable	Initial	Yes

Rating Rationale and Key Rating Drivers

AGAHE Pakistan, a Microfinance Institution (MFI), operates under the regulatory purview of the Securities & Exchange Commission of Pakistan (SECP) under Section 42 of the Companies Act, 2017. Licensed to function under NBFC (Establishment and Regulations) Rules, 2003, and Non-Banking Finance Companies and Notified Entities Regulations 2008, AGAHE Pakistan has been in operation since 2016. However, as MFIs are not allowed to mobilize deposits, and are considered "Companies Limited by Guarantee," the institution faces funding constraints and limited risk-taking capacity. As a not-for-profit organization, AGAHE Pakistan's funding sources include loans, grants, and internal profits. Over recent years, the Institution has notably increased its Gross Loan Portfolio (GLP), which led to a surge in earned markup, and consequently, a significant increase in net markup income. During FY22, the total income of the institution witnessed an upswing to PKR 364 million (FY21: PKR 220 million), leading to an improvement in its bottom line. The institution relies on diverse borrowing avenues, including the National Bank of Pakistan (NBP), State Bank of Pakistan (SBP), Pakistan Microfinance Investment Company (PMIC), and a financing agreement with the Pakistan Poverty Alleviation Fund (PPAF) for Revolving Fund, which strengthens its funding base. The Institution's cost of funds remained under control. However, the stability in its rating reflects substantial growth in GLP and profitability, but at the cost of increased Non-Performing Loans (NPLs) and deterioration in asset quality. With the sizable increase in key policy rate YoY harnessing of NPLs remain vital. Despite the governance structure being derived from the General Body of Members and the Board of Directors, the institution faces business vulnerability due to its limited geographical presence in Southern Punjab. Moreover, the liquidity profile of the Institution remains suppressed. Room for growth exists in the technological domain.

The Institution's ratings also take into account its commendable performance during the recent economic slowdown. The Institution's ability to maintain positive performance indicators, such as recouped infection ratios, increased Gross Loan Portfolio (GLP), and profitability, despite the challenging circumstances, has been reflected in the ratings. Additionally, the Institution has a presence in eight districts of Punjab, with more than 40 cumulative branches. The sustainability of positive performance indicators amidst business volume growth is critical for the Institution's ratings. The ratings will monitor the Institution's expansion and the impact of technological progress on its operational and risk efficacy. Therefore, sustaining growth momentum is vital for the Institution's future prospects.

Disclosure

Name of Rated Entity	AGAHE Pakistan
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Microfinance Institution Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Microfinance(Sep-22)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure AGAHE Pakistan ("The Institution") was incorporated with the Securities and Exchange Commission of Pakistan on January 22, 2016, under Section 42 of the repealed Companies Ordinance, 1984. The Institution is licensed to carry out Investment Finance Services as an NBFC under Rule 5 of the Non-Banking Finance Companies Rules, 2003.

Background AGAHE Pakistan was established as a result of AGAHE Society Welfare Trust, which was founded in 2010. Due to regulatory requirements, the microfinance operations were spun off and transferred to AGAHE Pakistan under a master agreement, which involved the transfer of assets, liabilities, and equity related to microfinance operations from the Trust, which was renamed "Association for Gender Awareness and Human Empowerment."

Operations The Institution operates in 8 districts of southern Punjab Vehari, Bahawalpur, Bahawalnager, Rajanpur, Khanewal, and Muzafergarh. The Institution's portfolio is diversified, with General loans, Micro-enterprise loans, PMIFL, and livestock accounting for 32%, 10%, 29%, and 27% of the total GLP, respectively.

Ownership

Ownership Structure AGAHE Pakistan is a public unlisted Institution limited by Guarantee not having a share capital. The control of the Institution currently vests with 7 members. Members do not have any shareholding in the Institution but have provided a guarantee of a certain amount as required in the regulations.

Stability All directors have good working experience and related knowledge of the business.

Business Acumen The Board members are well experienced and have suitable skills to guide the Institution in the right direction. Mr. Abid Aman Barki, the Chairman, is an Economic affairs expert with vast industry knowledge and an experience of 41 years in different capacities.

Financial Strength NBFCs have a different structure as compared to the other corporate structures. So, the sponsors willingness and ability to support the Institution in the case of need is not applicable in this case.

Governance

Board Structure The overall control of the Institution vests in the seven-member board of directors (BOD) including three independent directors with a woman representation on the board. There are three sub-committees on the board, namely (i) Audit Committee (ii) HR Committee, and (iii) Risk Management Committee to assist the board.

Members' Profile The board members of the Institution possess a wealth of experience in various fields. The Chairman of the Board, Mr. Abid Aman Barki, serves on multiple high-level committees and task forces of the government and has an extensive 41-year career in his field.

Board Effectiveness The presence of three independent directors brings objective analysis to the board's strategic moves and therefore, augments well for the governance of the Institution. During FY22, six board meetings were held.

Transparency Grant Thornton Anjum Rehman Chartered Accountants (Category A as per SBP Panel) are the External Auditors of the Institution. They expressed an unqualified opinion on the financial statements for the year ending June 30th, 2022.

Management

Organizational Structure The Institution's operations are grouped under seven departments. These include (i) Institutional Development (ii) Operations (iii) Accounts & Finance (iv) Risk & Compliance (v) Internal Audit (vi) Administration (vii) Information Technology. Each department head reports directly to the CEO and the head of internal audit reports to the Audit Committee.

Management Team The Institution has a mix of diverse experienced and skilled management. Mr. Barak Ullah, the CEO, is a seasoned microfinance practitioner having diverse experience of 16 years.

Effectiveness No management committees are formed to monitor performance and assure adherence to policies and procedures. The matters are discussed and settled at the individual levels with discussion and consensus.

MIS The Institution is in process of migrating an advanced Loan Management System developed by Pakistan Microfinance Network, where a full automated system will be used for disbursement and recoveries through branchless banking channels.

Risk Management Framework The Institution is progressing through its initial years with a well-managed risk control framework through the implementation of procedures and checks at the root level of operational activities.

Technology Infrastructure The Institution is currently utilizing Generix Solutions' Smart Management Information System, which is designed for microfinance institutions, for loan management and financial accounting & reporting. Disbursements are facilitated through OTC's online internet banking, while recoveries are made via branchless banking channels such as Easy paisa, UBL Omni, and bank deposits.

Business Risk

Industry Dynamics Pakistan Microfinance Industry (MFI) comprises 50 microfinance providers including 30 microfinance institutions (MFIs). Active Borrowers continued the increasing trend as 8.5 million borrowers were achieved during CY22, an increase of 5.6% compared to CY21. Similarly, the GLP surpassed PKR 448bln during CY22, an increase of 26.1% compared to the GLP in CY21. The further analysis explains the major contribution to the growth of active borrowers and GLP was contributed by the MFB. NBMFCs peer group contributed to the increase by adding 94,000 active borrowers and PKR 2.6bln in GLP. In the case of MFBs, PAR > 30 days slightly increased to 5.3% (CY21: 5.2%) while in MFIs, it recovered to report at 4.1% in CY22 (CY21: 5.5%).

Relative Position AGAHE Pakistan entered the market in 2016 on a provincial level with operations in 8 districts (South Punjab). The Institution currently holds 0.3% of the market share in terms of GLP (PKR 1,672mln as at End-Dec'22).

Revenue During FY22, the Institution's markup income clocked in at PKR 420mln (FY21: PKR 287mln), indicating an increase of 46%. Net markup income grew by 45% to PKR 289mln (FY21: PKR 198mln). Further, during 1HFY23, the Institution's markup earned clocked in at PKR 293mln while net markup income was recorded at PKR 186mln.

Profitability The bottom line of the Institution recorded growth clocking in at PKR 52mln during FY22 (FY21: PKR 30mln). During 1HFY23, total income clocked in at PKR 221mln which is including PKR 33mln of grant income. Profit before provisioning clocked in at PKR 39mln whereas net profit stood at PKR 36mln.

Sustainability Agahe's key strategic objectives are to (i) expand its financial inclusion program to rural areas, with a focus on southern Punjab, by expanding its network, and (ii) diversify its funding sources by expanding its funding landscape.

Financial Risk

Credit Risk The Institution's GLP clocked in at PKR 1,672mln as of end-Dec'22 (end-June'22: PKR 1,641mln, end-June'21: PKR 824mln); growth in the overall micro-credit loan portfolio has been recorded over the years. Regarding asset quality, the NPLs clocked in at PKR 34mln (end-June'22: PKR 29mln, end-June'21: PKR 29mln).

Market Risk The Institution has no investment book.

Funding The Institution relies mainly on external borrowing from Commercial Banks, PMIC, and PPAF to finance its operations. As of the end-Dec'22, the borrowing totaled PKR 1,237mln (end-Jun22: PKR 1,165mln) significant 62% surge from the previous year. This figure includes a foreign currency loan obtained from SIMA Funds.

Cashflows & Coverages AGAHE Pakistan has an adequate liquidity profile with liquid assets dropping by 63% to PKR 311mln at the end-Dec'22 (end-Dec'21: PKR 844mln); this may make it challenging for the Institution to meet its short-term financial obligations.

Capital Adequacy SECP has no minimum requirement for NBFI, unlike SBP which requires MFBs to main their CAR at 15%. The total funds and reserves as of end-Dec'22 stood at PKR 829mln (end-Jun22: PKR 793mln).

PKR mln

AGAHE Pakistan	Dec-22	Jun-22	Jun-21	Jun-20
Listed Public Limited	6M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	1,672	1,641	824	619
2 Investments	-	-	2	13
3 Other Earning Assets	309	219	688	321
4 Non-Earning Assets	204	196	87	66
5 Non-Performing Finances-net	(31)	(33)	(13)	(16)
Total Assets	2,154	2,022	1,588	1,003
6 Deposits	-	-	-	-
7 Borrowings	1,237	1,165	718	794
8 Other Liabilities (Non-Interest Bearing)	87	64	129	60
Total Liabilities	1,324	1,229	846	854
Equity	829	793	741	149
B INCOME STATEMENT				
1 Mark Up Earned	293	420	287	242
2 Mark Up Expensed	(107)	(131)	(89)	(87)
3 Non Mark Up Income	35	75	22	29
Total Income	221	364	220	184
4 Non-Mark Up Expenses	(181)	(288)	(169)	(156)
5 Provisions/Write offs/Reversals	(4)	(25)	(22)	4
Pre-Tax Profit	36	52	30	32
6 Taxes	-	-	-	-
Profit After Tax	36	52	30	32
C RATIO ANALYSIS				
1 Performance				
Portfolio Yield	32.0%	30.8%	37.1%	40.6%
Minimum Lending Rate	34.6%	34.8%	37.9%	N/A
Operational Self Sufficiency (OSS)	100.9%	95.5%	110.6%	N/A
Return on Equity	8.8%	6.8%	6.6%	24.1%
Cost per Borrower Ratio	13,026.6	6,214.0	5,046.2	5,189.9
2 Capital Adequacy				
Net NPL/Equity	-3.7%	-4.2%	-1.7%	-10.8%
Equity / Total Assets (D+E+F)	38.5%	39.2%	46.7%	14.9%
Tier I Capital / Risk Weighted Assets	N/A	N/A	N/A	N/A
Capital Adequacy Ratio	N/A	N/A	N/A	N/A
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	9.0%	7.0%	19.8%	27.4%
3 Funding & Liquidity				
Liquid Assets as a % of Deposits & Short term Borrowings	N/A	N/A	N/A	N/A
Demand Deposit Coverage Ratio	N/A	N/A	N/A	N/A
Liquid Assets/Top 20 Depositors	N/A	N/A	N/A	N/A
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	0.0%	0.0%	0.0%	0.0%
Net Advances to Deposits Ratio	N/A	N/A	N/A	N/A
4 Credit Risk				
Top 20 Advances / Advances	0.0%	0.0%	0.0%	0.0%
PAR 30 Ratio	2.0%	1.7%	3.3%	0.5%
Write Off Ratio	0.0%	0.0%	0.0%	0.0%
True Infection Ratio	2.0%	1.7%	3.3%	0.5%
Risk Coverage Ratio (PAR 30)	191.5%	215.3%	145.1%	604.4%

Credit Rating

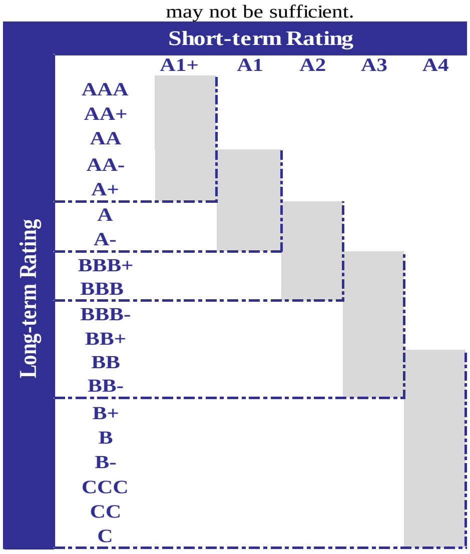
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information