The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan Microfinance Investment Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Jun-2024	AA	A1+	Stable	Maintain	Yes
23-Jun-2023	AA	A1+	Stable	Maintain	Yes
25-Jun-2022	AA	A1+	Stable	Maintain	Yes
25-Jun-2021	AA	A1+	Stable	Maintain	Yes
25-Jun-2020	AA	A1+	Stable	Maintain	Yes
27-Dec-2019	AA	A1+	Stable	Maintain	-
28-Jun-2019	AA	A1+	Stable	Maintain	-
31-Dec-2018	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings of Pakistan Microfinance Investment Company Limited (PMIC) reflect its strong equity base, well-conceived business plan, and strong ownership structure. PMIC's target market includes 42 institutions - 30 NBMFIs and 12 MFBs. PMIC specializes in a dedicated wholesale lending category with an exposure of PKR 29.1bln, serving a client portfolio of 19 MFIs and 5 MFBs with NPLs of PKR 262mln and an infection ratio of ~0.90% as of CY23. The Company has an internal credit risk rating mechanism for borrowers aligned with their credit history and risk absorption capacity. PMIC management is mindful of rationalizing the business matrix and restructuring the balance sheets of their watchlist clients to augment asset quality. The Company has multiple product verticals which include Renewable Energy, Micro-Insurance, Education, Agri & Enterprise Value Chains, Digital Finance, Enterprise Development, Women and Graduation Out of Poverty under the umbrella of Microfinance Plus Products. . The Company intends to diversify their income streams by venturing into multiple business avenues like introducing Islamic lending products for individual consumers through its compliant Microfinance Providers (MFPs), Agriculture products- Electronic Warehouse Receipt to facilitate farmers on outsourcing of warehouses and business correspondence model to untapped markets having limited access by MFIs. Going forward, PMIC will pursue a strategy of ameliorating its funding sources by actively engaging with domestic and international financial institutions and strengthening its equity base through strategic partnerships with impact investors, private equity firms, and development finance institutions. The Board of PMIC is more of an advisory nature and all members, who, in their own right, are reputable and well-educated individuals. The board is accompanied by a management team of seasoned and well-professional individuals. The liquidity framework of the Company evolves around an investment book of PKR 1.8bln mainly dominated by investment in government securities, TFCs and mutual funds. The under-stress microeconomic indicators specifically the consistent surge in KIBOR over the years ultimately elevated the cost of funds for MFIs. However, the latest cut in policy rates and anticipation of a gradual decline in the upcoming quarters will create a cushion for the industry. The industry's loan portfolio requires prudent management mainly on the back of the high level of interest rates. There is visible stress on a few accounts, which the management is actively pursuing.

The ratings are dependent on maintaining portfolio quality. Upscaling of the Microfinance Products and stability in the experienced management team, the Company's ability to sustain credit quality is considered important; maintaining a strong control environment remains central to the Company's performance and hence the ratings.

Disclosure	
Name of Rated Entity	Pakistan Microfinance Investment Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Financial Institution Rating(Oct-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | DFIs(Jun-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Structure Pakistan Microfinance Investment Company Limited ('PMIC' or the 'Company'), incorporated in August 2016, is licensed to carry out Investment Finance activities as a Non-Banking Financial Company (NBFC) under NBFC Rules 2003 and NBFC Regulations 2008.

Background The establishment of PMIC is one of the key milestones in the National Financial Inclusion Strategy (NFIS) launched in May 2015. NFIS is targeted towards helping the poor segments of society through financial inclusion.

Operations The business activities of PMIC can be divided into two categories; i) Financing and Investing Solutions and ii) Microfinance Plus Products. The latter entails the design and implementation of new financing products in line with the needs of end clients, where PMIC is also providing grant funding for technical assistance.

Ownership

Ownership Structure PMIC was created by the Pakistan Poverty Alleviation Fund (PPAF), Karandaaz Pakistan and the KfW, a German government-owned development bank. The sponsors have the shareholding of 49%, 38% and 13% respectively.

Stability The ownership structure has remained stable since its inception.

Business Acumen The business acumen of sponsors is considered strong as these are associated with the same sector and share the same development mandate.

Financial Strength The strong sponsors strengthen the financial muscle of PMIC, enabling it to meet its objectives of enhancing the liquidity of the microfinance sector.

Governance

Board Structure The Board of PMIC comprises seven members, including one representative of Karandaaz Pakistan and KFW Development Bank. The Chairman of the Board, is an independent, non-executive director providing additional independent oversight. Mr. Nadir Gul and Mr. Mohammad Tahseen joined the Board in Aug'23 as non-executive director. Ms. Farah Ayub Tarin joined the Board as independent director in Feb'24.

Members' Profile The Board is chaired by Mr. Naveed A. Khan, a leading banker, carrying more than 30 years of experience in various senior positions. Along with the PMIC, he is heading Sharmeen Khan Memorial Foundation as the CEO. Prior to this, he served as President of Faysal Bank Limited and ABN Amro Bank Pakistan Limited and has served in senior management positions at the Bank of America, Pakistan. Mr. Naveed Goraya, the representative of Karandaaz Pakistan, is also serving as the Chief Investment Officer of Karandaaz Pakistan. Dr. Markus Aschendorf is representing KfW on the Board.

Board Effectiveness The Board has formulated three board committees for effective monitoring, namely Board Audit Committee (BAC), Board Risk Committee (BRC), Board Human Resource Committee (BHRC). During the year, eighteen board meetings were conducted for the purpose of developing strategy on a timely basis.

Financial Transparency The external auditors, A.F. Ferguson and Co. has expressed an unqualified opinion for the year ended December 31, 2023.

Management

Organizational Structure PMIC's organizational structure is divided into nine departments i.e.; (i) Portfolio Management, (ii) Sector Development, (iii) Corporate finance and Investment Banking, (iv) Finance and Accounts, (v) Human Resources, (vi) Legal, (vii) Research & Strategy, viii) Risk Management & Compliance (ix) Audit.

Management Team Mr. Yasir Ashfaq is the CEO of the Company and is leading the Company since August 2017. He has more than 25 years of experience in commercial & investment banking, development, and the microfinance sector. He is a Fellow Member of ICMA and also has a Master's in Economics from the University of Sydney. He is supported by a team of professionals.

Effectiveness To ensure the effectiveness of the decision-making process, the management has set up three committees: i) Asset and Liability Committee (ALCO), ii) Management Committee (MANCOM), and iii) Management Risk Committee (MRC). All committees include the CEO, CFO, and the respective heads of departments.

MIS The Company's core ERP system is SAP which caters to business functionalities, reporting and GL transactions.

Risk Management Framework PMIC's enterprise risk management framework serves as a comprehensive document that outlines the risk profile and aids in the implementation of PMIC's business strategy vis-à-vis strategic challenges to achieve the overall objectives of the company and determination of the risks undertaken in relation to the company's risk capacity.

Business Risk

Industry Dynamics During 1QCY23, the microfinance industry which includes MFIs, MFBs & RSP in Pakistan has shown a growth of 3.7% from 4QCY22 to 1QCY23 in terms of Gross Loan Portfolio (GLP). The GLP stood at PKR 509.6bln during 1QCY23. The under-stress microeconomic indicators specifically the consistent surge in KIBOR over the years ultimately elevated the cost of funds for MFIs. However, the latest cut in policy rates and anticipation of a gradual decline in the upcoming quarters will create a cushion for the industry. The industry's loan portfolio requires prudent management mainly on the back of the high level of interest rates. The restriction on the mobilization of deposits has demarcated and supplemented the risk absorption capacity while triggering the funding constraints.

Relative Position PMIC has been established as an apex institution for the microfinance industry.

Revenues During CY23, markup revenue increased to PKR 8.4bln (CY22: PKR 4.9bln). Further segregation reveals that 79.4% of this total revenue is earned against lending to microfinance institutions (core operations of PMICL). During 1QCY24, markup revenue stand at PKR 1.9bln. The asset yield increased to clock at 22.8% in CY23 (CY22: 13.6%).

Performance The Company's markup expense inclined and clocked in at PKR 6.3bln in CY23 (CY22: PKR 3.4bln). Total cost to revenue ratio stood at 21.7% (CY22: 29.4%). The decrease is due to increase in total income. Management continuously rationalizes this cost as the company is growing its operations. PMIC booked a provision of PKR 555mln during CY23 (CY22: PKR 236mln). As a result, PMIC has managed to generate a net income of PKR 895mln in CY23 (CY22: PKR 633mln). With the business growth, it is expected that other operating income would also boost, providing additional cushion to the bottom line. During 1QCY24, the net income stands at PKR 209mln.

Sustainability The Company intends to diversify their income streams by venturing into multiple business avenues like introducing Islamic lending products for individual consumers through its compliant Microfinance Providers (MFPs), Agriculture products- Electronic Warehouse Receipt to facilitate farmers on outsourcing of warehouses and business correspondence model to untapped markets having limited access by MFIs. The Company is planning to participate in climate change program of 150mln USD, funded by ADB and IMF.

Financial Risk

Credit Risk PMIC's gross lending to financial institutions amounts to PKR 29.1bln as of end-Dec23 and PKR 27.9bln as of Dec'22 (end-Mar24: PKR 29.4bln). The top five lenders include; i) Kashf Foundation (12.9%), ii) Rural Community Development Program (11.7%), iii) JWS Pakistan (12.0%), iv) Thardeep Microfinance Found (10.3%), and v) SAFCO Support Foundation (10.4%) as at end-Mar'24. Despite these lenders being credible, diversification will assist in managing concentration as 57% of the top 10 is with five institutions.

Market Risk The treasury will continue to operate as a profit center while ensuring the availability of sufficient funds as per business requirements. The company has a conservative investments policy, whereby funds are either parked in government securities or highly rated counterparties. PMIC's long term investments increased from PKR 394mln (CY22) to PKR 622mln during CY23 whereas the short term investments has shown a decrease from PKR 11.3bln to PKR 1.2bln during CY23 due to redemption of treasury bills.

Liquidity And Funding The funding base of the company (end-Dec23: PKR 24.9bln, end-Dec22: PKR 33.6bln) mainly comprising of borrowing from shareholders and financial institutions. The Short term borrowings decreased and clocked at PKR 500mln during CY23 (CY22: PKR 10.6bln). The liquid assets as a percentage of borrowings of the company as of end-Dec 23: 9.5% (Dec 22: 10.9%).

Capitalization The equity base of the company witnessed an increase to PKR 8.8bln as of end-Dec23 (end-Dec22: PKR 7.9bln), with a share capital of PKR 5.9bln sponsored by the three shareholders. As at end Mar-24, equity base of the company increased to PKR 8.9bln.

PKR mln

Pakistan Microfinance Investment Company Limited Listed Public Limited	Mar-24	Dec-23	Dec-22	Dec-21
	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	30,041	29,634	28,621	26,984
2 Investments	1,562	1,279	11,060	1,595
3 Other Earning Assets	660	1,115	1,545	2,019
4 Non-Earning Assets	4,221	4,539	2,853	1,752
5 Non-Performing Finances-net	(1,414)	(1,376)	(1,479)	(1,243)
Total Assets	35,070	35,191	42,601	31,107
6 Deposits	-	-	-	-
7 Borrowings	24,814	24,947	33,601	23,416
8 Other Liabilities (Non-Interest Bearing)	1,272	1,439	1,085	419
Total Liabilities	26,086	26,386	34,685	23,835
Equity	8,984	8,805	7,915	7,273
B INCOME STATEMENT				
1 Mark Up Earned	1,908	8,447	4,898	2,793
2 Mark Up Expensed	(1,376)	(6,265)	(3,408)	(1,775)
3 Non Mark Up Income	(48)	375	201	101
Total Income	484	2,557	1,692	1,119
4 Non-Mark Up Expenses	(123)	(556)	(498)	(389)
5 Provisions/Write offs/Reversals	(38)	(555)	(236)	(61)
Pre-Tax Profit	323	1,447	958	669
6 Taxes	(114)	(552)	(325)	(192)
Profit After Tax	209	895	633	477
C RATIO ANALYSIS				
1 Performance				
Portfolio Yield	23.6%	23.6%	16.4%	9.9%
Minimum Lending Rate	21.0%	25.9%	15.5%	9.1%
Operational Self Sufficiency (OSS)	120.3%	118.5%	121.9%	129.2%
Return on Equity	9.4%	10.7%	8.3%	6.8%
Cost per Borrower Ratio	N/A	N/A	N/A	N/A
2 Capital Adequacy				
Net NPL/Equity	-15.7%	-15.6%	-18.7%	-17.1%
Equity / Total Assets (D+E+F)	25.6%	25.0%	18.6%	23.4%
Tier I Capital / Risk Weighted Assets	N/A	N/A	0.0%	N/A
Capital Adequacy Ratio	N/A	N/A	N/A	N/A
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	9.5%	11.3%	8.7%	7.0%
3 Funding & Liquidity				
Liquid Assets as a % of Deposits & Short term Borrowings	12.2%	9.5%	10.9%	23.8%
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

Credit Rating

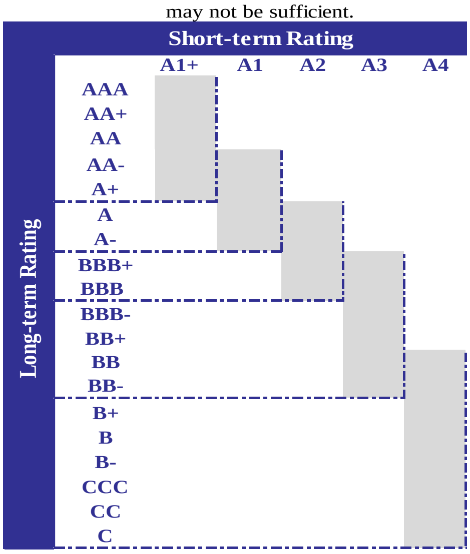
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

Proprietary Information