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
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 ('AGAHE' or 'the Institution') is a Microfinance Institution (MFI) governed by the Securities & Exchange Commission of Pakistan (SECP) under Section 42 of the Companies Act, 2017. The Institution is licensed to operate under NBFC (Establishment and Regulations) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations 2008. It has been in operations since 2016. The key element is that MFIs are not permitted to mobilize deposits, while they are also not backed by any stakeholder equity due to their status of "Companies Limited by Guarantee". These two elements, in combination, provide funding constraints, while they also delimit the boundaries of risk. AGAHE Pakistan is a not-for-profit organization, hence, the source of funding comprises a) loans (b) grants and (c) internal generation of profits. Over recent years, the Institution has sizably enhanced GLP which led to improved markup earned. In turn, net markup income augmented amply. Also, total income witnessed upsurge to PKR 193mln (6MFY21: PKR 138mln). Consequently, bottom line improved manifold. The Institute Institution relies on diversified avenues for borrowings primarily from Commercial Banks and PMIC. Financing agreement with PPAF for Revolving Fund has unique specifications and is strengthening the funding base. Institution's cost of funds remained under control. Upgrade in rating reflects significant growth in GLP and profitability, along with the financing agreement with PPAF for Revolving Fund. NPLs increased with the expiration of SBP’s deferment period. However, the same have been sufficiently provided for and infection ratio has recouped lately. Improvement in asset quality will remain an important factor in future. Liquidity profile of the Institution remains decent. Governance structure is derived from the General Body of Members and the Board of Directors. The ratings also incorporate the vulnerability in business due to market share. Room for growth in the technological domain exist.

Ratings also incorporate the Institution’s improved performance amidst economic slowdown lately exacerbated by the aftermaths of global pandemic spread. The same has been reflected in recouped infection ratio and enhanced GLP along-with profitability. Furthermore, Institution is adding more branches where cumulative number has surpassed 35. The ratings are dependent on the Institution's aptness to sustain positive performance indicators amidst growth in business volumes. Sustenance of growth momentum is imperative. Ratings will monitor expansion and the impact of technological progression on the operational and risk efficacy of the Institution.

Disclosure

Name of Rated Entity	AGAHE Pakistan
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Microfinance Institution Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Microfinance(Sep-21)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

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

Background The Company has sprung from AGAHE Society, which was established in 2010. Following Regulatory Compulsion to register Microfinance activities under NBFC License, the Society named "Association for Gender Awareness and Human Empowerment" (AGAHE) spun-off its microfinance operations and transferred its assets, liabilities and equity relating to microfinance operations to AGAHE Pakistan on the basis of master agreement with AGAHE Pakistan – A Non-Bank Microfinance Company registered u/s 42 of the Companies Act, 2017.

Operations The Company operates in 8 districts of province of the Punjab like, Okara, Pakpattan, Vehari, Bahawalpur, Bahawalnagar, Rajanpur, Khanewal and Muzaffargarh. Lending portfolio of the company currently includes agriculture loans, livestock loans, micro-enterprises loans, solar home solutions, auto loans, education finance and general loans.

Ownership

Ownership Structure AGAHE Pakistan is a public unlisted company limited by Guarantee not having share capital. The control of the company currently vests with 8 members. Members do not have any shareholding in the company but have provided 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 company in the right direction. Mr. Abid Aman Barki, the Chairman, is an Economic affairs expert with a vast industry knowledge and an experience of 40 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 company in point of need is not applicable in this case.

Governance

Board Structure The overall control of the company vests in 7-member board of directors (BOD) including three independent directors with a woman representation on the board. There are 3 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 are cherished with extensive experience in different fields. Chairman of the Board, Mr Abid Aman Barki is a PhD in Economics from a foreign university and an Economics professor at a well-known Institute in Pakistan. He also serves on several high-level committees and task forces of the government and has an overall experience of 40 years 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 company. During CY21, 6 board meetings were held.

Transparency Grant Thornton Anjum Rehman Chartered Accountants (Category A as per SBP Panel) are the External Auditors of the company. They expressed an unqualified opinion on the financial statements for the year Ended June'21.

Management

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

Management Team The Company has a mix of diverse experienced and skilled management. Mr. Barak Ullah, the CEO, is a seasoned microfinance practitioner having diverse experience of 15 years.

Effectiveness 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 Company has recently migrated on advance Loan Management System developed by Pakistan Microfinance Network, where full automated system will be used for disbursement and recoveries through branch-less banking channels.

Risk Management Framework The Company runs a well-managed risk control framework by implementation of procedures and checks at the root level of operational activities. This framework has enabled the management to succeed in achieving operational efficiency and growing the business size.

Technology Infrastructure Currently the company is using advance Loan Management System developed by Pakistan Microfinance Network for its loan management and financial accounting & reporting. This system is developed by PMN specifically for microfinance institutions. Also disbursements are made through OTCs online internet banking and recoveries are being made through branchless banking channels i.e. Easy paisa, UBL Omni and bank deposits.

Business Risk

Industry Dynamics Pakistan Microfinance Industry (MFI) comprises of 50 microfinance providers including 30 microfinance institutions (MFIs). During CY21, active borrowers of the industry exceeded pre-COVID figure to 8.1 million borrowers after recording growth of 16% compared to CY20. Similarly, the GLP surpassed PKR 390 billion during CY21, an increase of 21% compared to CY20. The growth in active borrowers and GLP continues to be driven by the MFB peer group as they managed to add over one million clients and PKR 52 billion in GLP. NBMFC peer group also contributed to portfolio growth with an addition of PKR 16.7 billion. In case of MFBs, PAR > 30 days increased to 5.1% (CY20: 3.3%) on account of expiration of loan deferment period allowed by SBP. However, the PAR > 30 days of MFIs recovered to report at 2.9% in CY21 (CY20: 4.7%).

Relative Position AGAHE Pakistan is a relatively low tier player in the Microfinance sector. It entered the market during 2016 on a province level with operations in 8 districts (Punjab of Punjab). The company currently holds 0.3% of the market share in terms of GLP (PKR 1,117mln as at End-Dec'21).

Revenue During 6MFY22, the Company's markup income clocked in at PKR 193mln (6MFY21: PKR 138mln), indicating an increase of 40%. Net markup income grew by 54% to PKR 145mln (6MFY21: PKR 94mln). Total income witnessed a growth of 83% to PKR 179mln (6MFY21: PKR 98mln).

Profitability During 6MFY22, bottom-line of the company recorded substantial growth clocking in at PKR 36mln during 6MFY22 (6MFY21: PKR 21mln), showing an increase of 71%. The growth in profitability is reflected by the increase in both net markup income.

Sustainability AGAHE's primary strategic elements include the following: (i) penetrating in rural areas with vision of financial inclusion program and (ii) Expanding its funding landscape.

Financial Risk

Credit Risk The company's net OLP clocked in at PKR 1,088mln as at End-Dec'21 (PKR 824mln as at End Jun'21 – a growth of 32%). The NPLs remained stagnant at PKR 29mln (End-Jun'21: PKR 29mln) despite increase in GLP. NPLs amounted to 2.7% of net OLP as at End-Dec'21 (End-Jun'21: 3.5%).

Market Risk The Company's exposure to market risk is high, since it has majorly reliance on external borrowings to meet its funding requirements. External factors including interest rate volatility is of significant effect to the company.

Funding The Company largely relies on Commercial Banks and PMIC for meeting its funding needs and has recently enhanced its borrowing from NBP. Total borrowing was recorded at PKR 1,111mln as at Dec'21 (End-Jun'21: PKR 718mln), up by 55%.

Cashflows & Coverages The Institutions liquidity profile improved during 6MFY22, as liquid assets were enhanced by 22% to PKR 844mln (End-Jun'21: PKR 689mln).

Capital Adequacy SECP has no minimum requirement for NBFI unlike SBP which require MFBs to main their CAR at 15%. The total funds and reserves as at End-Dec'21 stood at PKR 778mln (End-Jun'21: PKR 741mln).

Agahe Pakistan Public Limited	Dec-21	Jun-21	Jun-20	Jun-19
PKR mln	6M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	1,088	824	619	491
2 Investments	-	2	13	-
3 Other Earning Assets	775	688	321	33
4 Non-Earning Assets	174	87	66	49
5 Non-Performing Finances-net	(22)	(13)	(16)	(24)
Total Assets	2,015	1,588	1,003	549
6 Deposits	-	-	-	-
7 Borrowings	1,111	718	794	402
8 Other Liabilities (Non-Interest Bearing)	127	129	60	30
Total Liabilities	1,238	846	854	432
Equity	778	741	149	117
B INCOME STATEMENT				
1 Mark Up Earned	193	287	242	127
2 Mark Up Expensed	(48)	(89)	(87)	(50)
3 Non Mark Up Income	34	22	29	58
Total Income	179	220	184	135
4 Non-Mark Up Expenses	(137)	(169)	(156)	(85)
5 Provisions/Write offs/Reversals	(6)	(22)	4	(6)
Pre-Tax Profit	36	30	32	43
6 Taxes	-	-	-	-
Profit After Tax	36	30	32	43
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	16.1%	15.3%	20.0%	15.2%
Non-Mark Up Expenses / Total Income	76.3%	76.7%	85.0%	63.2%
ROE	9.6%	6.6%	24.1%	45.3%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	38.6%	46.7%	14.9%	21.3%
Capital Adequacy Ratio	N/A	N/A	N/A	N/A
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	75.9%	96.2%	42.4%	8.3%
(Advances + Net Non-Performing Advances) / Deposits	N/A	N/A	N/A	N/A
Demand Deposits / Deposits	N/A	N/A	N/A	N/A
SA Deposits / Deposits	N/A	N/A	N/A	N/A
4 Credit Risk				
Non-Performing Advances / Gross Advances	2.6%	3.3%	0.5%	0.0%
Non-Performing Finances-net / Equity	-2.8%	-1.7%	-10.8%	-20.2%

Credit Rating

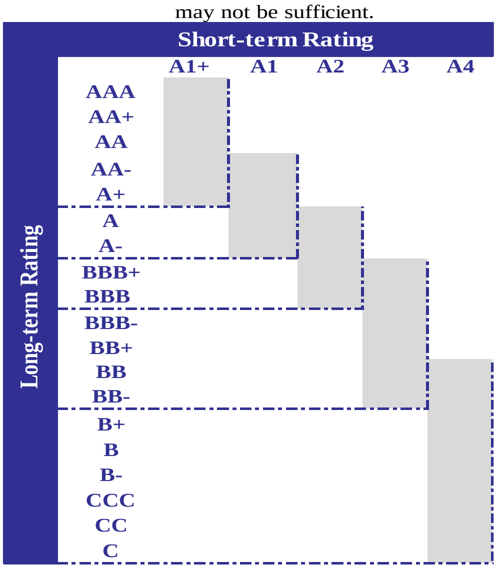
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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.
(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