



The Pakistan Credit Rating Agency Limited

Rating Report

Apna Microfinance Bank Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Apr-2019	BBB+	A3	Stable	Maintain	-
30-Apr-2019	BBB+	A3	Stable	Maintain	-
04-Dec-2018	BBB+	A3	Stable	Maintain	-
28-May-2018	BBB+	A3	Stable	Upgrade	-
10-Nov-2017	BBB	A3	Stable	Maintain	YES
10-May-2017	BBB	A3	Stable	Downgrade	-

Rating Rationale and Key Rating Drivers

The ratings capture improved risk profile of Apna Microfinance Bank ("the bank"). Sponsors have been reviving the CAR as witnessed through persistent equity injections (PKR~400mln - CY18, PKR~400mln -CY17). However, with steady expansion in unsecured lending book, CAR continued to hover below the regulatory benchmark at ~9% as at End-Dec'18 through slightly higher period on period basis (~8% End-Dec'17). Further cash injections are scheduled for remediation, of which PKR~100mln has already arrived in 1QCY19. Asset quality displayed a notable refinement with the overall infection ratio declining to ~13% (CY17: ~22%). The fresh infection is a concern. This is achieved on the backdrop of disbursing fresh loans to quality customers accompanied by stricter follow-ups. Meanwhile, stringent efforts to recover older non-performing loans (NPLs) are being carried out. The ratings take into account sponsors' cognizance of the situation and their commitment to rectify. Bottomline closed in the positive zone, though remained merely thin; cost rationalization is the key challenge to upgrade performance indicators, particularly from core operations. Additionally, building up a stable and diverse deposit base is fundamental to fuel the momentum of growth.

The ratings are dependent upon cleansing of the older lending book alongside maintaining health of fresh disbursements. Compliance with CAR is essential. Besides, improved profitability is of significance and any further deterioration in asset quality or CAR will have negative impact on the ratings.

Disclosure

Name of Rated Entity	Apna Microfinance Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology MFI (Jun-18)
Related Research	Sector Study Microfinance Bank(Apr-19)
Rating Analysts	Muhammad Nadeem Sheikh nadeem.sheikh@pacra.com +92-42-35869504

Profile

Structure Apna Microfinance Bank Limited (hereinafter referred to as “the bank”) was incorporated in May 2003 as a Public Limited Company under the Companies Act, 2017 (formerly Companies Ordinance, 1984). The bank is listed on the Pakistan Stock Exchange (PSX) since the commencement of its operations in 2005.

Background In June-15, the bank was granted a national level license subsequent to completion of regulatory capital requirement. Presently, the bank operates with a network of 123 branches spread across Pakistan. The Head Office of the bank is located on Sundar Das Road, Lahore.

Operations The bank is offering a wide variety of lending products customized according to the needs of various communities. These include loans for farmers, livestock loans, agri-loans, house loans, tractor loans, salary loans, business loans, gold backed loans, and others catering specific needs of the unbanked individuals. The bank also has a broad range of serviceable deposits that are mobilized through a number of current, saving and time deposit products.

Ownership

Ownership Structure Apna Microfinance Bank is a part of United International Group (UIG) with major ownership stake of ~70% as at End-March19, vesting with the group companies - United Insurance Company (~44%) and United Track Systems (Pvt.) Limited (~20%). UIG is led by its Founder and Chairman – Mian Akram Shahid – the single largest shareholder. Owing to Mr. Shahid’s indirect shareholding in Apna MFB through UIC (being the main sponsor) and direct shareholding in the bank (~4%), he is considered to be the ultimate/main sponsor of the bank.

Stability Ownership structure is stable as the UIG is expected to remain sponsor of the bank.

Business Acumen United International Group (UIG) has gradually strengthened its foothold in various business ventures.

Financial Strength The group is diversified into various other sectors including insurance, tracking services, information technology and business consultancy, thereby depicting sound financial strength.

Governance

Board Structure The Board of Directors comprises seven members, with one director holding more than ~10% ownership stake in the bank. Including Mr. Akram Shahid, the Chairman of the Board, five directors are representative of UIC group while one is independent director.

Members’ Profile Mr. Akram Shahid is a seasoned professional having overall experience of more than 34 years. Other board members are also well experienced. Board members’ profile is considered adequate.

Board Effectiveness The Board has four sub-committees; (i) Executive (ii) HR & Remuneration (iii) Risk Management and (iv) Audit Committee.

Financial Transparency Ilyas Saeed & Co. Chartered Accountants is the external auditor of the company and they have expressed qualified opinion on CY18 financial accounts in respect to quantum of non-performing advances, related provision and suspended income.

Management

Organizational Structure The revived organization structure benefited the bank in arresting the destruction and toning down prevalent risks to an acceptably low level on a timeline basis. The management is committed to further strengthen its operations.

Management Team Since the cleansing of HR Base the tone of the management has been completely changed, where integrity is considered as the core value of the team. Top management alongside mid-tier managers and branch staff are well-versed individuals possessing knowledge of their business.

Effectiveness Effective management practices accompanied by formal meetings and documentation controls have improved the overall operational efficacy of the bank.

MIS AB3 - Autosoft is used as the core banking software which sufficiently serves the purpose of meeting banking reporting requirements.

Risk Management Framework Separate Risk Division is in place; adequate mechanism for assessing credit worthiness and non-performing portfolio. All Risk Management policies and manuals have been redesigned.

Technology Infrastructure Technological infrastructure is sound; AB3 - Autosoft is used as the core banking software which sufficiently serves the purpose of meeting banking reporting needs.

Business Risk

Industry Dynamics Pakistan Microfinance Industry comprises 45 microfinance providers including 11 Microfinance Banks (MFBs), 18 Microfinance Institutions (MFIs), 7 Rural Support Program (RSPs) and 9 others projects, MFBs dominate the Industry with a share in lending portfolio of ~69%. Growth in lending book remained relatively slow in CY18 coupled with increased infection ratio owing to delinquencies in crop linked loans and increasing interest rates in 2HCY18 which lowered the repayment capacity of the borrowers.

Relative Position The bank’s current direction is focused towards emerging out of the turmoil the bank was in and considerable results have been achieved in this regard. The bank’s share in market in terms of Gross Loan Portfolio (GLP) stood at ~5% and in terms of micro-deposits, it recorded at ~7% as at End-Dec’18.

Revenue The bank recorded a net interest/markup revenue of PKR~1,357mln during CY18 (CY17: PKR 874mln), with YOY growth of 55%. Channeling of funds to better yield products has also improved the asset yield of the bank, as it earned asset yield of 20% (CY17: 16%) during the period under review. Improved income has also resulted in improved spreads during the period.

Profitability Since Jan’18, the bank achieved break-even and started generating profits. Net profitability clocked in at PKR~53mln as at End-Dec’18. The bank recorded income related to insurance claims lodged during default during the year of PKR~150mln (CY17:PKR~404mln). Still the generation of profit from core operation is critical for the bank.

Sustainability The bank has achieved considerable success in turning around its deteriorated position. Stringent management efforts and team cohesiveness are reflected in the stabilized position of the bank. Meanwhile, recoveries from the previously infected loan book and generation of profit from core operations is necessitated.

Financial Risk

Credit Risk Gross Loan Portfolio surged to PKR~10,087mln as at End-Dec’18 (End-Dec’17: PKR~5,984mln), demonstrating a healthy increase of ~69% Infection ratio dropped significantly to ~13% (CY17: ~22%), though remained stagnant in absolute numbers, reflecting that infection pertaining to fresh disbursement is low. Recoveries against old loan portfolio remain critical.

Market Risk Due to very low borrowing from financial institutions and good mix of low cost deposits, will somehow reduce market risk of the bank. Although, downside of the spreads will remained exposed to increasing interest rate environment.

Funding As the bank takes up pace to increase its business size, expansion in funding base remains key to its strategy. Total deposits of the bank clocked in at PKR~15,866mln at End-Dec’18 (End-Dec’17: PKR~12,529mln), representing steady growth. Deposit mobilization will remain the key source of the bank’s funding going forward.

Liquidity Liquidity profile draws management vigilance as liquid assets-to-deposits and borrowings ratio dropped to ~33% as at End-Dec’18 (End-Dec’17: ~46%). Decreased investment in government securities led the decrease in liquidity position of the bank.

Capital Adequacy The bank remained non-compliant in meeting the minimum CAR requirement of 15%. CAR as at End-Dec’18 was recorded at ~9.1% (End-Dec’17: 7.7%). The CAR increased during the period under review on the back of capital injection of PKR 400mln by sponsors.



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Apna Microfinance Bank Limited

Financial Summary

PKR mln

BALANCE SHEET	31-Dec-18	31-Dec-17	31-Dec-16
	Annual	Annual	Annual
Earning Assets			
Total Finances	8,879	4,772	4,920
Investments	783	554	598
Deposits with Banks	2,911	4,049	4,233
	12,573	9,375	9,752
Non Earning Assets			
Non-Earning Cash	1586	1202	1075
Net Non-Performing Finances	388	130	571
Fixed Assets & Others	3076	3276	2156
	5,050	4,608	3,802
TOTAL ASSETS	17,623	13,984	13,554
Interest Bearing Liabilities			
Deposits			
CASA	10,600	7,673	6,335
Time Deposits	5,266	4,856	6,012
	15,866	12,529	12,347
Borrowings	9	202	204
Non Interest Bearing Liabilities	274	232	296
TOTAL LIABILITIES	16,149	12,963	12,847
EQUITY (including revaluation surplus)	1468	1012	693
Deferred Grants	5	9	15
TOTAL LIABILITIES & EQUITY	17,623	13,984	13,554
INCOME STATEMENT	31-Dec-18	31-Dec-17	31-Dec-16
Interest / Mark up Earned	2,158	1,578	1,442
Interest / Mark up Expensed	(801)	(704)	(672)
Net Interest / Markup revenue	1,357	874	770
Other Operating Income	177	51	62
Total Revenue	1,534	925	832
Other Income	250	467	51
Non-Interest / Non-Mark up Expensed	(1,594)	(1,309)	(1,135)
Pre-provision operating profit	190	84	(252)
Provisions	(89)	(273)	(846)
Pre-tax profit	100	(188)	(1,098)
Taxes	(47)	109	362
NET INCOME	53	(80)	(735)
Ratio Analysis	31-Dec-18	31-Dec-17	31-Dec-16
Performance			
ROE	4%	-9%	-85%
Cost-to-Total Net Revenue	89%	94%	129%
Capital Adequacy			
Equity/Total Assets	8%	7%	5%
Capital Adequacy Ratio as per SBP	9.1%	7.7%	6.8%
Loan Loss Coverage			
Non-Performing Advances /Gross Advances	13%	22%	23%
Loan Loss Provisions / Non-Performing Advances	70%	90%	62%
Funding & Liquidity			
Liquid Assets / Deposits and Borrowings	33%	46%	47%
Advances / Deposits	58%	39%	44%
CASA deposits / Total Customer Deposits	67%	61%	51%
Intermediation Efficiency			
Asset Yield	20%	16%	20%
Cost of Funds	6%	6%	8%
Spread	14%	11%	12%
Outreach			
Branches	123	122	116

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

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- (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)

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- (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)

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