



The Pakistan Credit Rating Agency Limited

Rating Report

ASA Microfinance Bank (Pakistan) Limited (Formerly ASA Pakistan Limited)	Report Contents
	<ol style="list-style-type: none"> 1. Rating Analysis 2. Financial Information 3. Rating Scale 4. Regulatory and Supplementary Disclosure

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Sep-2023	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

ASA Microfinance Bank (Pakistan) Limited ('ASA MFB' or the 'Company') is focused on providing small, socially responsible financial services to low-income entrepreneurs. The assigned rating incorporates the Company's association with ASA International Group Plc, which is listed on the London Stock Exchange. ASA International is one of the world's largest international microfinance institutions with a presence in 13 countries across Asia & Africa. The Company has been able to devise a sound strategy and established a strong footprint over the years represented by a strong growth in lending operations with the advances portfolio comprising of clean unsecured lending surging by ~21% in CY22 to stand at ~PKR 17,779mln following a notable growth of ~44% in CY21. The Company secures ~6% market share in terms of GLP and ~12% market share in terms of women borrowers amongst the microfinance banks and institutes as of end-Dec`22. The recent growth recorded in the GLP is a result of enhanced outreach secured by the Company. The same growth pattern is projected in the future as well; wherein the need to curb infection remains vital. During CY22, ASA MFB recorded a sizable improvement of ~40% in markup income, due to volumetric growth in advances and improvement in spreads. The net profitability is also depicting a growth trend over the years and reflected a surge of ~25% in CY22 with the mark-up expense being the limiting factor. Given the strong growth in income vis-à-vis expense base, the OSS depicted improvement and is considered to be sound. Overall profitability indicators of the Company compare favorably to the industry. The Company has one of the highest equity base amongst competitors while the parent company has also injected ~PKR 750mln in CY22 to further support the business growth. ASA MFB has acquired the Microfinance Bank license from SBP; however, final approval is awaiting from SBP's end for the commencement of banking operations. With the Company presently not having the ability to raise deposits, the operations are funded by a mix of borrowings & equity; in addition, more than 90% of borrowings are foreign currency denominated. ASA MFB has managed its exchange risk through hedging using forward contracts. With liquid assets limited to less than 10% of the aggregate borrowings, the rating reflects low liquidity indicators of the Company. The Company's operations so far remained concentrated to Sindh & Punjab, wherein the branch network has been further reinforced to 345 in 2022 and expansion is underway for KPK and Balochistan.

The assigned rating is contingent upon the Company's capacity to effectively mitigate emerging risks under the prevailing circumstances to preserve its business and financial risk profile. At the same time, the Company's ability to safeguard its performance indicators in a challenging business environment is crucial.

Disclosure	
Name of Rated Entity	ASA Microfinance Bank (Pakistan) Limited (Formerly ASA Pakistan Limited)
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(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Microfinance(Sep-22)
Rating Analysts	Hassaan Ahmad Hassaan.Ahmad@pacra.com +92-42-35869504



The Pakistan Credit Rating Agency Limited

Profile

Structure ASA was incorporated as an unlisted public limited company in 2008, as a for-profit Microfinance Institution under section 32 of the Companies Ordinance, 1984.

Background The Company was operating as a Microfinance Institution. In January 2020, the Company was granted a No Objection Certificate (NOC) by the State Bank of Pakistan for conversion into ASA Microfinance Bank (Pakistan) Ltd. Accordingly, in February 2021, the Securities & Exchange Commission of Pakistan approved the conversion and issued the COI on change of name. Subsequently, in May 2022, the SBP granted the MFB license to ASA MFB (Pakistan) Ltd, which is now awaiting the commencement letter from SBP to start the Banking operations as a MFB.

Operations ASA MFB (Pakistan) Ltd (formerly ASA Pakistan) is providing microcredit to female entrepreneurs through its network of 345 branches spread across Punjab and Sindh.

Ownership

Ownership Structure The Company is 99.99% owned by ASA International Holding, which is based out of Mauritius. However, ASA International Group Plc which is listed on the London Stock Exchange possesses 100% shareholding of ASA International Holding.

Stability The holding institution, ASA International, which operates in South Asia, South East Asia, West Africa and East Africa, is one of the world's largest international microfinance institutions providing small, socially responsible loans to low-income entrepreneurs across Asia and Africa, most of whom are women. It has a wide network of 2028 branches in more than 13 countries.

Business Acumen ASA International's diverse presence across multiple countries gives it keen market insights into the microfinance business.

Financial Strength The group has a consolidated asset base of ~USD 490mln and a consolidated equity position of ~USD 90mln at end-Dec'22. ASA International Group PLC is listed on the London Stock Exchange with a share price of ~£ 95 on 16th June 2023.

Governance

Board Structure The Company's Board of Directors (BoD) comprises seven members, which include three independent and four non-executive directors. The Board is chaired by Mr. Dirk Machgielis Brouwer, who is the CEO and co-founder of ASA International. The non-executive directors all represent ASA international.

Members' Profile Mr. Dirk Brouwer co-founded ASA International in 2007 and has since served as its Executive Director and Chief Executive Officer. With over 20 years of experience in investment banking, and 15 in microfinance. Mr. Bollen has been the General Counsel of ASA International since 2007 and joined the Board of ASA MFB in November 2019. Mr. Martijn Bollen has over 13 years of experience in the microfinance industry.

Board Effectiveness The Company has formed three committees at the Board level – 1) Audit Committee, 2) Human Resources Committee, and 3) Risk Management Committee. All committees are chaired by an independent director, strengthening the governance oversight.

Transparency EY Ford Rhodes Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the financial statements for CY22. The firm is in the A Category of SBP's panel of auditors. Furthermore, the Company also has an internal audit department for a greater control framework.

Management

Organizational Structure The Company has a well-developed organizational structure. The administration, HR, IT, and social performance departments report to the deputy CEO while the other departments apart from the internal audit department report to the CEO. The internal audit department reports directly to the Board Audit Committee.

Management Team The Management Team is headed by Mr. Saeed Uddin Khan, the CEO of the Company. He joined as the CEO in 2019. Mr. Saeed brings with him over 33 years of diversified and senior management experience in Conventional as well as Islamic Banking in different banks and financial institutions. He holds MBA degree from IBA, Karachi.

Effectiveness The Company has formulated multiple committees at the senior management level – 1) Management Committee, 2) Information Technology Steering Committee, 3) Compliance Committee, 4) Credit Operations Committee, 5) Client Complaint Resolution Committee, and, 6) Corporate Social Responsibility Committee.

MIS To enhance data safety, management has significantly improved the Data collection and management center and has acquired a program for compliance handling.

Risk Management Framework The Company has Risk Management and Compliance departments which perform regular 'surprise' visits to branches to assess multiple risk and compliance parameters. Furthermore, there is a Risk Management Committee (RMC) at the Board level while a risk management manual is also present. There are also TORs defined for the RMC.

Technology Infrastructure ASA MFB has software sourced from ASA International which allows for real-time report generation. Furthermore, there is an ongoing implementation of the T24 software system to streamline the loan disbursements and collection of loans, involving cash transactions. The implementation will increase the efficiency.

Business Risk

Industry Dynamics The business environment during CY23 has remained challenging so far. The high inflation has squeezed the purchasing power of consumers, and the cost of doing business has also increased.

Relative Position The Company has an Outstanding Loan Portfolio (OLP) amounting to ~PKR 17,909mln at end-Dec'22, which constitutes a market share of ~6% as per the OLP of microcredit institutions and banks in the country.

Revenue The Company earned a total revenue of ~PKR 7,346mln during CY22 representing a notable increase compared to the revenue of ~PKR 5,229mln in CY21. Moreover, for the first quarter of the CY23 (3MCY23), the company achieved a revenue of approximately PKR 2,220 mln. Furthermore, the top line is supported by profit earned on bank deposits amounting to ~PKR 113mln during CY22 and ~PKR 131mln during 3MCY23.

Profitability The Company earned a net surplus of ~PKR 2,061mln during CY22 as compared to ~PKR 1,655mln during CY21.

Sustainability ASA MFB is focusing on technology integration to streamline its operations in the coming year. Furthermore, the Company is in the final stages of conversion to a microfinance bank, which will have major implications for its business operations.

Financial Risk

Credit Risk Despite the current economic situation, the Company's write-offs increased by just ~PKR 12mln in CY22 as compared with CY21, depicting the Company's ability to manage its credit risk.

Market Risk ASA MFB strategically allocates the majority of its deposits to savings accounts, resulting in negligible market risk. By adopting this approach, the bank effectively manages its exposure to market fluctuations and volatility. The emphasis on savings accounts allows ASA MFB to maintain stability in its financial operations, ensuring the safety and security of the deposited funds.

Funding The majority of the Company's funding is from foreign sources and the Company has to hedge its risk through futures contracts with banks. Mobilization of deposits after the conversion to a microfinance bank may help with these risks in the future.

Cashflows & Coverages The current liabilities of the Company stood at ~PKR 7,514mln at end-Dec'22. The Company has a good amount of current assets to cover its current liabilities, standing at ~PKR 22,170mln at end-Dec'22.

Capital Adequacy The Company's equity base stood at ~PKR 9,270mln at end-Dec'22 compared with ~PKR 6,571mln at end-Dec'21. The current level of equity base is considered good.



PKR mln

ASA Microfinance Bank (Pakistan) Limited
Unlisted Public Limited

Dec-22	Dec-21	Dec-20
12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	17,779	13,959	9,722
2 Investments	-	-	-
3 Other Earning Assets	1,215	811	900
4 Non-Earning Assets	3,732	1,256	912
5 Non-Performing Finances-net	130	(168)	292
Total Assets	22,856	15,859	11,826
6 Deposits	-	-	-
7 Borrowings	11,623	8,605	6,540
8 Other Liabilities (Non-Interest Bearing)	1,964	683	452
Total Liabilities	13,587	9,287	6,992
Equity	9,270	6,571	4,835

B INCOME STATEMENT

1 Mark Up Earned	7,346	5,229	4,045
2 Mark Up Expensed	(1,922)	(1,068)	(1,003)
3 Non Mark Up Income	(6)	(9)	(31)
Total Income	5,417	4,152	3,011
4 Non-Mark Up Expenses	(2,129)	(1,490)	(1,237)
5 Provisions/Write offs/Reversals	(55)	(321)	(432)
Pre-Tax Profit	3,234	2,341	1,342
6 Taxes	(1,172)	(687)	(393)
Profit After Tax	2,062	1,655	949

C RATIO ANALYSIS

1 Performance

Portfolio Yield	45.2%	42.5%	39.3%
Minimum Lending Rate	25.1%	23.1%	26.2%
Operational Self Sufficiency (OSS)	177.5%	179.3%	149.8%
Return on Equity	26.0%	29.0%	21.8%
Cost per Borrower Ratio	3,808.5	3,193.4	2,877.7

2 Capital Adequacy

Net NPL/Equity	1.4%	-2.6%	6.0%
Equity / Total Assets (D+E+F)	40.6%	41.4%	40.9%
Tier I Capital / Risk Weighted Assets	41.5%	42.2%	40.9%
Capital Adequacy Ratio	N/A	N/A	N/A
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	31.4%	34.2%	24.6%

3 Funding & Liquidity

Liquid Assets as a % of Deposits & Short term Borrowings	38.6%	27.2%	N/A
Demand Deposit Coverage Ratio	N/A	N/A	N/A
Liquid Assets/Top 20 Depositors	N/A	N/A	N/A
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	0.0%	0.0%	0.0%
Net Advances to Deposits Ratio	N/A	N/A	N/A

4 Credit Risk

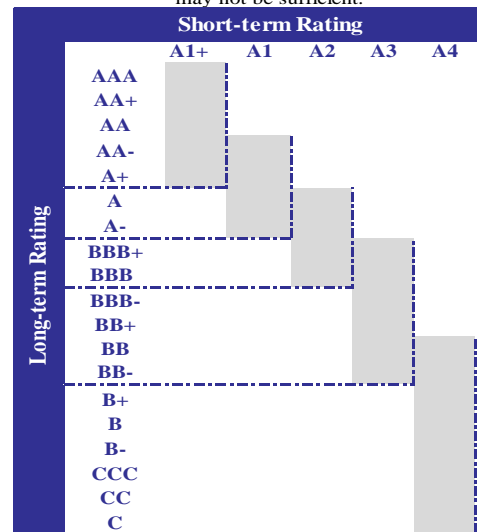
Top 20 Advances / Advances	0.0%	0.0%	0.0%
PAR 30 Ratio	1.4%	0.3%	5.5%
Write Off Ratio	0.6%	3.2%	2.3%
True Infection Ratio	1.9%	3.0%	7.6%
Risk Coverage Ratio (PAR 30)	46.9%	497.3%	48.6%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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(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

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(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)

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(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).

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(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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