



The Pakistan Credit Rating Agency Limited

## Rating Report

### Agaha Pakistan

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Aug-2020	BB+	A3	Stable	Initial	YES

#### Rating Rationale and Key Rating Drivers

Agaha Pakistan ('Agaha' or the 'Company') is a Microfinance Institution (MFI) governed by the Securities & Exchange Commission of Pakistan (SECP) under Section 42 of the Companies Act, 2017. The Company 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. Agaha is a not-for-profit organization, hence, the source of funding comprises a) loans (b) grants and (c) internal generation of profits. Profitability of the company is growing at a moderate pace, therefore, integral generation of capital is occurring at a modest rate too. The company relies on diversified avenues for borrowings primarily from Commercial Banks and PMIC, wherein SECP's Relief Package for deferment of loan repayment has been granted to the Company by PMIC. 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 low market share (GLP: PKR~687mln - End-March'20) and limited geographical presence in the Southern Punjab. Moreover, the impact of economic slowdown lately exacerbated by the global pandemic spread has cast a rippling effect on different sectors of the country. Microfinance industry is also expected to absorb the impact as disbursement, recoveries and liquidity patterns of each players may be influenced. Agaha's liquidity position remains comfortable.

The ratings are dependent on the Company's aptness to uphold its business and financial risk profile under the prevailing volatile macro-environment. Sustenance of growth momentum is imperative. Meanwhile, "Watch" reflects the need to oversee the risk profile of the Company against unavoidable challenges, particularly emanating from economic meltdown and repercussions due to COVID-19.

#### Disclosure

<b>Name of Rated Entity</b>	Agaha Pakistan
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   MFI (Jun-20), Methodology   Correlation Between Long-Term And Short-Term Rating Scale (Jun-20), Criteria   Rating Modifier (Jun-20)
<b>Related Research</b>	Sector Study   Microfinance (Sep-19)
<b>Rating Analysts</b>	Shazia Afzal   shazia.afzal@pacra.com   +92-42-35869504



## Profile

**Structure** Agahe Pakistan (herein referred to as “The Company”) was incorporated with the Securities and Exchange Commission of Pakistan on January 22, 2016 under Section 42 of the repealed Companies Ordinance, 1984 .The company is licensed to carry out Investment Finance Services as a Non-Banking Finance Company under Rule 5 of the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

**Background** The Company has sprung from Agahe Society welfare trust, which was established in 2010. Following Regulatory Compulsion to register Microfinance activities under NBFC License, the Trust 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 (The Company) on the basis of master agreement with Agahe Pakistan – the Trust. The Company initially carried forward a portfolio of approx. PKR 350mln from the trust.

**Operations** The company operates in 6 districts of southern Punjab like Vehari ,Bahawalpur , Bahawalnager , Rajanpur , Khanewal and Muzafgarh . 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. As the members are not taking any monetary benefit from the profits hence.

## 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. Mr Abid Aman Barki is the chairman of 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. He has an overall experience of ~40 years in his field.

**Board Effectiveness** The presence of three independent directors brings objective analysis of the board’s strategic moves and therefore, augments well for the governance of the company. During FY19, 3 board meetings were held.

**Financial Transparency** Grant Thornton Anjum Rehman Chartered Accountants are the External Auditors of the company. They expressed an unqualified opinion on the financial statements for the year Ended June’19. Internal Audit Department reports directly to the Audit Committee.

## Management

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

**Management Team** The 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. Mr. Sajid Ali, GM Accounts and Finance, holds a master’s degree in Business Administration.

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

**MIS** The Company is in process of migrating on advance Loan Management System developed by Pakistan Microfinance Network, where full automated system will be used for disbursement and recoveries through branchless banking channels

**Risk Management Framework** The company is progressing through its initial years with a well-managed risk control framework by implementation of procedures and checks at the root level of operational activities. This framework is enabling the management to succeed achieving operational efficiency and growing the business size in the future.

**Technology Infrastructure** Currently the company is using Smart Management Information System for its loan management and financial accounting & reporting. This System is developed by Generix Solutions 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 42 microfinance providers including 11 microfinance banks (MFBs). MFI outreach hovers around ~7.3mln active borrowers at End-March’20, representing market penetration of ~36% of the total potential market. MFBs dominate the Microfinance sector, representing ~71% and NBMFC ~29% of total Gross Loan Portfolio of PKR ~308bln and 51% of active borrowers vs 49% active borrowers of NBMFC at End-March’20.

**Relative Position** Agahe Pakistan is a relatively low tier new player in the Microfinance sector. It entered the market during 2016 on a province level with operations in 6 districts (South Punjab). The company currently holds ~0.3% of the market share in terms of GLP (PKR~687mln as at End-March’20).

**Revenue** During 9MFY20, the company’s net interest/ markup revenue (NIMR) clocked in at PKR~81mln (FY19: PKR~77mln). The company made earnings of processing fee and commission of PKR~23mln during 9MFY20 (FY19: PKR~21mln).

**Profitability** During 9MFY20, earning assets reflected ~88% of the total asset base (FY19: ~87%). Bottom-line of the company remained thin clocking in at PKR~15mln during 9MFY20 and PKR~43mln during FY19 (FY18:~9mln).

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

## Financial Risk

**Credit Risk** The company’s GLP clocked in at PKR~687mln as at End-March’20 (PKR~491mln in FY19 – a growth of ~40%). The Company’s reported NPLs clocked in at ~0.50% as at End-March’20 (Dec-19: 0.01%). Agahe has instituted policies for assessing credit worthiness of loan applicants, which is paramount to its business model. All loan applications go through e-CIB and CNIC verification checks to ensure customer credentials.

**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 and exchange rate volatility is of significant effect to the company.

**Funding** The Company largely relies on Commercial Banks’ and PMIC for meeting its funding needs. The company has PKR~831mln total available limits from different financial institutions as on End-March’20. It also includes a foreign currency loan from SIMA Funds.

**Liquidity** The company earned an average spread of ~20% during 9MFY20 (FY19: ~30%). With reduced recovery pattern owing to COVID-19 crisis, cautious management approach is necessitated to meet liquidity challenges in a timely manner. SECP’s Relief Package for deferment of loan repayment has been availed by the Company.

**Capital Adequacy** SECP has no minimum requirement for NBFIs unlike SBP which require MFBs to main their CAR at 15%.The total funds and reserves as at End-March’20 stood at PKR~132mln (FY19: PKR~117mln).



<b>BALANCE SHEET</b>	<b>31-Mar-20</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>
	3Q	Annual	Annual	Annual
<b>Earning Assets</b>				
Total Finances	687	491	382	258
Investments	0	0	0	0
Deposits with Banks	129	33	55	42
	<b>817</b>	<b>524</b>	<b>437</b>	<b>300</b>
<b>Non Earning Assets</b>				
Non-Earning Cash	2	0	1	0
Net Non-Performing Finances	-31	-24	-17	-10
Fixed Assets & Others	67	49	39	21
	<b>38</b>	<b>25</b>	<b>22</b>	<b>11</b>
<b>TOTAL ASSETS</b>	<b>855</b>	<b>549</b>	<b>459</b>	<b>311</b>
<b>Interest Bearing Liabilities</b>				
<b>Deposits</b>				
CASA	-	-	-	-
Time Deposits	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Borrowings</b>	692	402	321	186
<b>Non Interest Bearing Liabilities</b>	30	30	64	60
<b>TOTAL LIABILITIES</b>	<b>722</b>	<b>432</b>	<b>385</b>	<b>246</b>
<b>EQUITY (including revaluation surplus)</b>	<b>132</b>	<b>117</b>	<b>74</b>	<b>65</b>
<b>Deferred Grants</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>855</b>	<b>549</b>	<b>459</b>	<b>311</b>
<b>INCOME STATEMENT</b>	<b>31-Mar-20</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>
Interest / Mark up Earned	146	127	81	39
Interest / Mark up Expensed	(66)	(50)	(26)	10
<b>Net Interest / Markup revenue</b>	<b>81</b>	<b>77</b>	<b>55</b>	<b>49</b>
Other Operating Income	23	21	16	7
<b>Total Revenue</b>	<b>104</b>	<b>97</b>	<b>71</b>	<b>56</b>
Other Income	26	38	12	20
Non-Interest / Non-Mark up Expensed	(105)	(85)	(68)	33
Pre-provision operating profit	25	50	15	109
Provisions	(10)	(6)	(6)	4
Pre-tax profit	15	43	9	113
Taxes	-	-	-	-
<b>NET INCOME</b>	<b>15</b>	<b>43</b>	<b>9</b>	<b>113</b>
<b>Ratio Analysis</b>	<b>31-Mar-20</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>
<b>Performance</b>				
ROE	16%	45%	14%	31%
Cost-to-Total Net Revenue	80%	63%	81%	-58%
<b>Capital Adequacy</b>				
Equity/Total Assets	15%	21%	16%	21%
Capital Adequacy Ratio as per SBP	0%	0%	0%	0%
<b>Loan Loss Coverage</b>				
Non-Performing Advances /Gross Advances	0%	0%	0%	0%
Loan Loss Provisions / Non-Performing Advances	1071%	94614%	5615%	N/A
<b>Funding &amp; Liquidity</b>				
Liquid Assets / Deposits and Borrowings	19%	8%	17%	23%
Advances / Deposits	N/A	N/A	N/A	N/A
CASA deposits / Total Customer Deposits	N/A	N/A	N/A	N/A
<b>Intermediation Efficiency</b>				
Asset Yield	44%	53%	44%	52%
Cost of Funds	24%	28%	20%	21%
Spread	20%	25%	23%	31%
<b>Outreach</b>				
Branches	24	15	13	116

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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	
BB-	
B+	
B	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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.
- (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)
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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)

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- (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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