



The Pakistan Credit Rating Agency Limited

Rating Report

AGAHE Pakistan

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 '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. AGAHE Pakistan 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, internal generation of capital is occurring at a modest rate too. The company relies on diversified avenues for borrowings primarily from Commercial Banks and 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 market share (GLP: PKR 850mln - End-Jun'21) and limited geographical presence in the Southern Punjab region. Moreover, with the expiration of SBP's deferment scheme period, the Institution witnessed a significant upsurge in non-performing loans. The impact of economic slowdown lately exacerbated by the global pandemic spread had cast a rippling effect on different sectors of the country. Microfinance industry is expected to absorb the impact as disbursement, recoveries and liquidity patterns were influenced.

Positive Outlook reflects significant growth in gross loan portfolio and profitability, along with the financing agreement with PPAF for Revolving Fund. This fund has been provided initially for a period of four years (likely to be further extended for similar periods on recurring basis on the completion of initial term) under the Interest Free Loan (IFL) Program. The Revolving Fund will be part of funds and reserves and will be treated as part of equity, thereby increasing the equity base of the Company. Despite the repercussions associated with the COVID-19 pandemic, fresh finances have been offered by commercial lenders. AGAHE Pakistan has entered into new arrangements which represents the trust they have in the Institution.

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

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-20)
Rating Analysts	Ahmad Saad Siddiqi ahmad.saad@pacra.com +92-42-35869504

Profile

Structure AGAHE Pakistan 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 NBFC under Rule 5 of the Non-Banking Finance Companies Rules, 2003.

Background 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 on the basis of master agreement with AGAHE Pakistan – the Trust.

Operations The Company operates in 8 districts of southern Punjab like Vehari, Bahawalpur, Bahawalnagar, Okara, Pakpattan, 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 8-member board of directors (BOD) including three independent directors. 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 FY21, 3 board meetings were held.

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'20.

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.

Effectiveness The Company has four management sub-committees to monitor performance and assure adherence to policies and procedures. These sub-committees are: (i) Management Credit Committee (ii) Procurement Committee (iii) Senior Management Team (iv) Grievance & Redressal Mechanism Committee.

MIS The Company uses Loan Management System developed by PMN, 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 has enabled the management to succeed in achieving operational efficiency and growing the business size in the future.

Technology Infrastructure Currently the company is using Loan Management System 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.

Business Risk

Industry Dynamics Pakistan Microfinance Industry (MFI) comprises of 32 microfinance providers including 21 microfinance institutions (MFIs). Active Borrowers exceeded pre-COVID figures as 7.6 million borrowers were achieved during 3MCY21, an increase of 4% compared to 3MCY20. Similarly, the GLP surpassed PKR 340 billion during 3MCY21, an increase of 10% compared to the GLP in Q1 last year. The growth in active borrowers and GLP continues to be driven by the MFB peer group as they managed to add over 614,000 clients and PKR 11 billion in GLP.

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 (South Punjab). The company currently holds 0.2% of the market share in terms of GLP (PKR 850mln as at End-June'21).

Revenue During FY21, the Company's markup income clocked in at PKR 278mln (FY20: PKR 242mln), indicating an increase of 15%. Net markup income grew by 23% to PKR 191mln (FY20: PKR 155mln). Non markup income recorded a significant growth of ~600% to PKR 202mln (FY20: PKR 29mln), on the back of present value adjustment of interest free loan of PKR 191mln. Total income witnessed a growth of 114% to PKR 393mln (FY20: PKR 184mln).

Profitability During FY21, bottom-line of the company recorded substantial growth clocking in at PKR 237mln during FY21 (FY20: PKR 32mln), showing an increase of 639%. The growth in profitability is reflected by the increase in both net markup and non-markup income.

Sustainability Agahе'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 850mln as at FY21 (PKR 619mln in FY20 – a growth of 37%). With the growth in overall micro-credit loan portfolio, the Institution witnessed a significant upsurge in non-performing loans, owing in part to the expiration of SBP's deferment scheme. The NPLs clocked in at PKR 27.9mln (FY20: PKR 3.2mln), indicating a rise of more than 750%. NPLs amounted to 3% of total GLP in FY21 (FY20: 0.5%).

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 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 PPAF. Total borrowing was recorded at PKR 1,133mln as at June'21 (FY20: PKR 794mln), up by 43%. It also includes a foreign currency loan from SIMA Funds.

Liquidity The Institutions liquidity profile improved in FY21, as liquid assets were enhanced by 105% to PKR 690mln (FY20: PKR 336mln). Liquid assets to borrowing ratio increased to 60.9% (FY20: 42.4%).

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 June'21 stood at PKR 386mln (FY20: PKR 149mln).



PKR mln

**Agahe Pakistan
Listed Public Limited**

Jun-21	Jun-20	Jun-19	Jun-18
12M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	822	619	491	382
2 Investments	2	13	-	-
3 Other Earning Assets	688	321	33	55
4 Non-Earning Assets	86	66	49	39
5 Non-Performing Finances-net	8	(16)	(24)	(17)
Total Assets	1,605	1,003	549	459
6 Deposits	-	-	-	-
7 Borrowings	1,133	794	402	321
8 Other Liabilities (Non-Interest Bearing)	86	60	30	64
Total Liabilities	1,219	854	432	385
Equity	386	149	117	74

B INCOME STATEMENT

1 Mark Up Earned	278	242	127	81
2 Mark Up Expensed	(87)	(87)	(50)	(26)
3 Non Mark Up Income	202	29	58	28
Total Income	393	184	135	83
4 Non-Mark Up Expenses	(155)	(156)	(85)	(68)
5 Provisions/Write offs/Reversals	(1)	4	(6)	(6)
Pre-Tax Profit	237	32	43	9
6 Taxes	-	-	-	-
Profit After Tax	237	32	43	9

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	14.6%	20.0%	15.2%	14.4%
Non-Mark Up Expenses / Total Income	39.4%	85.0%	63.2%	81.5%
ROE	88.5%	24.1%	45.3%	13.5%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	24.1%	14.9%	21.3%	16.1%
Capital Adequacy Ratio	N/A	N/A	N/A	N/A

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	60.9%	42.4%	8.3%	17.2%
(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	3.3%	0.5%	0.0%	0.1%
Non-Performing Finances-net / Equity	2.0%	-10.8%	-20.2%	-23.0%

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+	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	
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	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.
CC	
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>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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)

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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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