



The Pakistan Credit Rating Agency Limited

Rating Report

Abhi (Pvt.) Limited

Report Contents

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
28-Nov-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Abhi (Pvt.) Limited ("Abhi" or the "Company") has emerged into the country's fintech space with a financial wellness platform for individuals and companies. Abhi's focus is to increase financial inclusion in the country through its credit-bridging products. The Company is offering products that are secured against customers' earned revenues. Abhi has raised ~\$22.8mln from renowned venture capital funds (VCs) and the co-founder's own investment. As a technologically agile Company, Abhi has built convenience and ease in customers' experience through the mobile application, which translated into a rapid growth proposition for the Company. As part of the business strategy, Abhi does not have any plans to enter into the unsecured lending business. Another product line of Abhi is invoice factoring which is currently a prime revenue earner. Going forward, revenue from a single product line will be kept under 70% of the total operating revenue to reduce the product concentration. Further, Abhi only allows the EWA facility to employees of pre-qualified customers, and concentration risk has been addressed through having a cap of 5% of net equity and sub-ordinated debt for cumulative exposure of all product lines to a single customer. Abhi's total credit exposure stood at ~PKR 4,607mln at end-Jun'22, and going forward Abhi will ensure that the cap of single product-line exposure and sector exposure to 70% and 20% of net-equity and subordinated debt, respectively, is maintained. Further, total credit exposure will be kept under 2x of equity. The Company had an equity base of ~PKR 1,047mln at end-Jun'22, which has since been boosted through further injection by the parent company, standing at ~PKR 2,131mln at end-Aug'22. The Company has expressed the intention to maintain at least PKR 4bln as equity and sub-ordinated debt moving forward. At least 20% of this is to be kept in liquid avenue. A detailed shareholder's agreement is in place ensuring the long-term commitment of the co-founders and other sponsors. Abhi has an adequate governance structure. The presence of an independent director is well noted, and going forward the Company plans to adhere to the CCG requirements. The holding company's board has four nominee directors from the major VCs, while two independent directors are also present for added oversight. The management team, comprised of industry professionals, is headed by Mr. Omair Ansari (CEO), an ex-Morgan Stanley portfolio manager, and Mr. Ali Ladhubai (COO), an ex-retail banker, who are also the co-founders behind the Company. Abhi has in place an elaborate risk management framework; board approved policies addressing all facets of the Company. A detailed business plan has been developed to address their short-term and long-term goals, indicating the Company's firm intent on organized growth.

The ratings are dependent upon Abhi's continued adherence to the agreed rating parameters. The Company's ability to sustain their rapid growth and increase their geographical diversification is important. Prudent management of credit risk and continued improvement of control environment remain vital.

Disclosure

Name of Rated Entity	Abhi (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Non-Banking Finance Companies Rating(Jun-22)
Related Research	Sector Study Modaraba & NBFCs(Apr-22)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504



Profile

Structure Abhi (Pvt.) Limited (“Abhi” or the “Company”) is incorporated with SECP as a private limited company and has been granted the license to carry out Investment Finance Services as a Non-Banking Finance Company. The license is valid for a period of three years w.e.f April 15, 2022.

Background Founded in 2021 by the co-founders – Mr. Omair Ansari and Mr. Ali Ladhubhai, Abhi has raised ~USD 23mln in Seed and Series-A funding rounds led by international venture capital firms Vostok Emerging Finance and Speedinvest. The funding rounds were supported by Global Ventures, VentureSouq, and Sturgeon Capital while regional VC firms Fatima Gobi, Sarmayacar, and i2i Ventures also participated.

Operations Abhi is a financial wellness platform that provides the employees of its clients with salary advances based on their accrued wages. Abhi offers Payroll Financing/Processing services in addition to Invoice Factoring allowing businesses to borrow against their future cash flows.

Ownership

Ownership Structure The co-founders – Mr. Omair Ansari and Mr. Ali Ladhubhai own the majority of shares by ~20.21% and 19.33% respectively through the holding company – Abhi Limited. The rest of the shares are vested with renowned venture capital firms. Abhi Limited owns 100% stakes of Abhi Fintech Limited registered in UAE which in turn owns ~99.99% of Abhi (Pvt.) Limited.

Stability A detailed shareholders agreement is in place to ensure the co-founders and other shareholders will continue to be invested as the Company matures to ensure its growth trajectory.

Business Acumen The co-founders possess a good mix of skills and experience. Mr. Omair Ansari is an investment Banker by background with a particular focus on the Emerging/Frontier equity market. He was previously associated with Morgan Stanley running two funds focusing on Fintech. Mr. Ali Ladhubhai is an ex-banker who has held managerial roles in retail banking/wealth management with HSBC and Samba Bank in Pakistan.

Financial Strength Abhi has already secured funding of ~USD 23mln and with the calibre of investors involved Abhi has the ability to raise further capital as the Company is in profit.

Governance

Board Structure Presently, Abhi’s board of directors comprises three members: the co-founders and an independent director. While the holding company’s board comprises seven members out of which four members have been nominated by the investors, some of the top professionals in financial services globally.

Members’ Profile Mrs. Nwal Abdullah Gareeb is currently the Head of Private Banking at JS Bank Limited. While at the holding Company’s board, Mr. David Nangle, Mr. Bernhard Kleman, Mr. Stefan Klestil, and Mr. Sacha Haider represents VEF, Sarmayacar, Speedinvest, and Global Ventures respectively.

Board Effectiveness Abhi has formed four board-level committees, including the Audit, Investment, HR, and Risk & Compliance Committees. The independent director chaired the Audit and Risk & Compliance Committees, strengthening the board’s effectiveness.

Financial Transparency Abhi has appointed M/s BDO, Ebrahim and Company Chartered Accountants as the external auditors. The auditors rank in category-A of the SBP’s panel of auditors.

Management

Organizational Structure Abhi has a functional organizational structure with the highest level of responsibility at the top. Employees are organized according to their specific skills and corresponding function in the Company.

Management Team The co-founders head the management team - Mr. Omair and Mr. Ali who are also performing their roles at Abhi as the CEO and COO respectively. Abhi has in place a well-qualified team comprising industry experts.

Effectiveness A management committee is in place which is overseeing all relevant matters for discussion pertaining to the operations.

MIS Comprehensive MIS reports are generated on a daily/weekly/monthly for review by management on a regular basis. Abhi is currently implementing Turnkey Loan Management System, a best-in-class software that automates the entire lending process.

Risk Management Framework The Company has a separate Risk Management department and has also taken on board industry experts as advisors and consultants. Together, they have managed to create robust internal processes and policies for each product category which govern limits as well as help to perform in-depth customer analysis. The addition of an internal audit function has improved the risk management and control framework further.

Business Risk

Industry Dynamics The business environment during CY22 has remained challenging so far. The high inflation has squeezed the purchasing power of consumers, and the cost of doing business has also increased. While the economy is largely suffering, Abhi has managed to onboard a significant clientele owing to the fact that the products are designed to provide relief to the users.

Relative Position Abhi is a recent entrant in the employee salary financing space. Through their non-compete agreements with domestic and international VCs, Abhi has created a barrier to entry for new entrants. Finja, another fintech company that was launched in 2016 similar to Abhi, provides salary advances to employees.

Revenues Abhi earned ~PKR 14mln in revenue during CY21, which was their first year of doing business. Since the start of CY22, Abhi’s revenue has significantly improved at a growth rate of 30-40% MoM. Abhi earned ~PKR 73mln during 1QCY22 and more than doubled their topline during 2QCY22 by earning ~PKR 155mln. The revenue earned for 1HCY22 stood at ~PKR 228mln.

Performance Due to low revenue in CY21 and significant legal and administrative expenses, the Company suffered a loss after tax of ~PKR 75mln. On the other hand, the financial performance had a significant turnaround during CY22, with the rapid growth in the topline resulting in the Company earning ~PKR 53mln profit after tax during 1HCY22.

Sustainability The management plans to ensure sustainability by having the right people around with a focus to establish revenue sources and at the same time reducing the risk to avert disruptions.

Financial Risk

Credit Risk Abhi has in place documented policies pertaining to credit risk management. The policies are approved by the Board of Directors with clearly defined limits over and above the regulatory guidelines for its products and clients. Abhi has limited the credit risk by having a policy of not engaging in the unsecured lending business and providing financing against earned revenues and emoluments.

Market Risk The funding from VCs has been raised in USD terms. This exposes Abhi to the risk of PKR devaluation as the repatriation of profits would be USD. Reasonable hedging measures would help to counter this risk. Abhi invests unutilized cash in low-risk financial instruments such as T-Bills and TDRs.

Liquidity And Funding Abhi presently uses and will continue to do so in the future, its capital for an advance against earned emoluments which are short-term in nature and therefore liquid and carry minimal market, and liquidity risk. Abhi has the ability to raise additional capital from existing and new investors as the last round closed on an attractive valuation. In addition to local and international equity investors, Abhi intends to raise debt from local capital markets in the near future.

Capitalization Abhi has increased the authorized share capital to PKR 5bln recently while the paid-up capital stood at ~PKR 1,047mln at end-Jun’22. Abhi has further increased the paid-up capital to ~PKR 2,131mln at end-Aug’22 while SBLC arrangements amounting to PKR 965mln also remain available.



Abhi (Pvt.) Limited
Private Limited Company

Jun-22
6M

Dec-21
12M

A BALANCE SHEET

1 Total Finance-net	4,607	821
2 Investments	-	50
3 Other Earning Assets	465	10
4 Non-Earning Assets	179	38
5 Non-Performing Finances-net	-	-
Total Assets	5,251	919
6 Funding	4,148	50
7 Other Liabilities	56	23
Total Liabilities	4,204	73
Equity	1,047	846

B INCOME STATEMENT

1 Mark Up Earned	228	14
2 Mark Up Expensed	-	(0)
3 Non Mark Up Income	10	(21)
Total Income	237	(8)
4 Non-Mark Up Expenses	(152)	(68)
5 Provisions/Write offs/Reversals	(32)	-
Pre-Tax Profit	53	(75)
6 Taxes	-	(0)
Profit After Tax	53	(75)

C RATIO ANALYSIS

1 PERFORMANCE		
a Non-Mark Up Expenses / Total Income	64.2%	-875.6%
b ROE	11.1%	-8.9%
2 CREDIT RISK		
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	111.1%	1642.1%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A
3 FUNDING & LIQUIDITY		
a Liquid Assets / Funding	12.7%	22.8%
b Borrowings from Banks and Other Financial Institutes / Funding	100.0%	100.0%
4 MARKET RISK		
a Investments / Equity	0.0%	5.9%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%
5 CAPITALIZATION		
a Equity / Total Assets (D+E+F)	19.9%	92.0%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	12.5%	N/A

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
--	---

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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 | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent