



The Pakistan Credit Rating Agency Limited

## Rating Report

### ASA Microfinance Bank (Pakistan) Limited (Formerly ASA Pakistan Limited)

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#### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
17-Mar-2023	SIP2	Stable	Initial	-

### Rating Rationale

Factor	Comment
<b>Ownership/Members</b>	ASA International Holding owns 99.99% of the ownership stake. The ASAI group has diversified global presence having branches in 13 countries currently.
<b>Governance</b>	There are 6 directors on the board. The board structure of ASA-MFB is considered strong with 3 independent and 3 non-executive directors.
<b>Management</b>	A well-defined organizational structure is present with an experienced management team to run operations smoothly. The technological infrastructure may be improved to automate the loan disbursement and collection processes.
<b>Social Impact</b>	The Company undertakes CSR activities throughout the year, while two senior management committees focused on social impact are present. The vision statement clearly defines the target market. It may look towards publishing social indicators and composing a board social performance committee.
<b>Business Sustainability</b>	The Company is on a rapid YoY growth trajectory, the GLP has increased from ~PKR 10bln at end-Dec'20 to ~PKR 17bln at end-Sep'22. Despite the rapid growth, the expenses are contained with a healthy OSS ratio and profitability.
<b>Financial Sustainability</b>	The PAR30 ratio improved sharply after the COVID-19; however, the Company look towards improving its risk coverage ratio.

### Key Rating Drivers

ASA Microfinance Bank (Pakistan) Limited (or the 'Company') received MFB license but will start operating as MFB after approval of COB from SBP. The Company was formed with a primary focus on women's empowerment, stemming from the ASAI group's focus on female entrepreneurs and the financial wellness of the rural population. The Company's focus on its mission is evident through having ~96% female borrowers at end-Sep 22. The management presents a client grievance summary to the board on a quarterly basis and has a well-structured program to provide financial literacy training to its customers. It is in the process of conversion to a microfinance bank, and the mobilization of deposits may decrease its reliance on foreign and local funding, improving its sustainability. Going forward, commitment to social objectives and action on the same will be important for the rating. Moreover, the rationalization of planned business strategies would be critical.

#### Disclosure

<b>Name of Rated Entity</b>	ASA Microfinance Bank (Pakistan) Limited (Formerly ASA Pakistan Limited)
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Social Impact and Performance Rating
<b>Applicable Criteria</b>	Methodology   Social Impact and Performance Rating(Sep-22)
<b>Related Research</b>	Sector Study   Microfinance(Sep-22)
<b>Rating Analysts</b>	Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504

## Profile

**Background** ASA Microfinance Bank (Pakistan) Limited (formerly ASA Pakistan Limited) ('ASA MFB' or the Company) is a for-profit, Microfinance Institution, incorporated in 2008 under section 32 of the company's ordinance, 1984. The Company received MFB license but will start operating as MFB after approval of COB from SBP.

**Scope Of Operations** The Company's principal activity is to provide micro-finance facilities to the less fortunate people in Pakistan. As of September 22, the Company operates from its Head Office based in Karachi and has 345 branches across Pakistan. The branches are concentrated in Punjab and Sindh while there is one branch each present in Baluchistan and KPK. The Company has three microfinance products – 1) Small Loan (SL), 2) Small Business Loan (SBL), and 3) Small & Medium Enterprise Loan (SME). The products differ in minimum and maximum loan size, ranging from PKR 15k to PKR 300k. There is also a difference in Loan Tenure and Loan period amongst the products.

## Ownership/Members

**Structure** The Company is 99.99% owned by ASA International Holding, based in Mauritius. ASA International operates in South Asia, South East Asia, West Africa, and East Africa. In total, the group has a presence in 13 countries.

**Acumen** The group is one of the world's largest global microfinance institutions providing small, socially responsible loans to low-income entrepreneurs, most of whom are women, across Asia and Africa.

**Financial Strength** The group has a consolidated asset base of ~USD 546mln and a consolidated equity position of ~USD 101mln at end-Jun'22. ASA International Group PLC is also listed on the London Stock Exchange with a share price of ~GBP 94 on 14th Feb 2023.

## Governance

**Board Structure** The Company's Board of Directors (BoD) comprises six members, which include three independent and three non-executive directors. The Board is chaired by Mr. Dirk Machgielis Brouwer, who is the Group Chief Executive Officer (GCEO) and co-founder of ASA International. The Company does not have a Social Performance Committee at the Board level; however, there are two committees at the senior management level. 1) Corporate Social Responsibility Committee (CSRC) 2) Client Complaint Resolution Committee (CCRC). There is also a group requirement whereby Company reports CERISE SPI4 self-assessment reports to the group on an annual basis.

**Board Profile** Mr. Dirk Brouwer co-founded ASA International in 2007 and has since served as its Executive Director and Group Chief Executive Officer. He has over twenty years of experience in investment banking, and fifteen years in microfinance. Mr. Martijn Bollen has been the General Counsel of ASA International since 2007 and joined the Board of the Company in November 2019. Mr. 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. The composition of a social performance management committee at the board level will provide better social impact oversight for the Company.

**Transparency** The Company has appointed EY Ford Rhodes Chartered Accountants as the external auditors. The auditors have expressed an unqualified opinion on the financial statements for CY21. 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 functionally reports directly to the Board Audit Committee.

**Management Team** Mr. Saeed Uddin Khan, the Chief Executive Officer (CEO) of the Company, heads the Management Team. He joined as the CEO in 2019. Mr. Saeed brings thirty-three years of diversified and senior management experience in Conventional and Islamic Banking in different banks and financial institutions. He holds an MBA degree from IBA, Karachi. Mr. Tasawar Hussain is the Deputy-CEO of the Company and joined in 2017. Mr. Tasawar has an MBA degree in Accounting & Finance and has over twenty-four years of diverse experience, gained from the international banking industry.

**Management 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.

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

**Technology Infrastructure** The Company has in-house software - AMBS, sourced from ASA International which allows for real-time report generation. The software encompasses all relevant areas of and shows information such as NPLs, at-risk portfolio, number of clients, number of disbursements, OLPs, and overdue clients, among other details. The MIS system has user rights assigned to each user to manage their system. On the other hand, the loan disbursements and collections process is currently all performed through cash transactions. The process of CBS replacement from AMBS to Temenos T-24 is underway to streamline the Company's operations and is expected to be implemented at the start of FY24.

## Social Impact

**Social Performance Management System** The Company's mission and vision statements are clearly defined and publicly available. The Company has a Green Banking Policy as well as a Corporate Social Responsibility Policy. The Company prepares multiple reports related to social performance, including a social performance dashboard, a client satisfaction survey, and a summary of Corporate Social Responsibility (CSR) activities performed throughout the year. Two Committees are formed at the senior management level related to social performance management – 1) Client Complaint Resolution Committee, and, 2) Corporate Social Responsibility Committee. The Company ensures to train its staff including the loan officers on multiple aspects such as the best practices on client dealings.

**Client Protection & Social Responsibility** The Company ensures that transparency is present in all its dealings with customers. Customers can lodge their complaints through multiple channels. The management reports grievances to the board on a quarterly basis while a board-approved client complaint policy is also available. A board-approved policy for Consumer Protection Framework (CPF) is also available. The Company has done multiple CSR activities throughout FY22 which involved many sectors like health, education, community development, climate change, and natural disaster.

**Outreach** The Company has ~96% female borrowers and ~39% rural borrowers at end-Sep'22, showing its commitment towards providing finances to the under-banked population in the country. The client retention ratio of above 80% depicts the customers' loyalty to the Company.

**Quality Of Services** Customers are informed about all necessary information at the time of loan application. Further, regular training is provided to customers to have them educated on the best practices of businesses. The Company performs client satisfaction surveys on an annual basis, with both client retention rates and client satisfaction survey results being above 80%.

## Business Sustainability

**Operating Environment** The business environment during FY23 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 mainly suffering, the micro-finance industry's business has increased due to increased demand for micro-loans by the sector's customers.

**Sustainability** The Company has an Outstanding Loan Portfolio (OLP) amounting to ~PKR 17,151mln at end-Sep'22, which constitutes a market share of ~3.7% as per the OLP of microcredit institutions in the country. The Company earned ~PKR 5,212mln in revenue during 9MCY22 while it earned ~PKR 5,229mln in CY21, as compared to ~PKR 4,045mln during CY20. The revenue stems from loan service charges (Interest income) and the top line is supported by profit earned on bank deposits amounting to ~PKR 83mln during 9MCY22 (CY21: ~PKR 70mln). Major expenses during 9MCY22 included finance cost of ~PKR 1,336mln (CY21: ~PKR 1,068mln), salaries and wages expenses amounting to ~PKR 1,221mln (CY21: ~PKR 1,080mln), provisions against non-performing loans of ~PKR 80mln (CY21: ~PKR 243mln) and bad debts written off amounting to ~PKR 59mln (CY21: ~PKR 79mln). The Company earned a net surplus of ~PKR 2,146mln during 9MCY22 as compared to ~PKR 2,341mln during CY21.

**Strategy** The Company is focusing on technology integration to streamline its operations and has plans to convert to a microfinance bank shortly, which will have major implications for its business operations. The plan is to mobilize deposits in order to reduce the reliance on external funding, which may result in a reduced financial cost, thereby enhancement in sustainability.

## Financial Sustainability

**Asset Quality** The Company manages its credit risk through its credit policy which has eligibility criteria written to have a person qualify for obtaining loans. Despite the COVID-19 pandemic, the credit risk is managed effectively, which is evident by the PAR30 ratio improving drastically from 5.5% in CY20 to 0.3% in CY21.

**Liquidity & Funding** The current liabilities of the Company stood at ~PKR 7,108mln at end-Sep'22, while they stood at ~PKR 3,600mln at end-Dec'21. On the other hand, the long-term liabilities have increased from ~PKR 5,687mln at end-Dec'21 to ~PKR 6,775mln at end-Sep'22. The Company has a good amount of current assets to cover its current liabilities, standing at ~PKR 21,655mln at end-Sep'22 compared to ~PKR 15,475mln at end-Dec'21. The Company has significant liquidity risk at all times due to the necessity of effectively managing its collections to stay ahead of its monthly and quarterly loan repayments. Moreover, 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.

**Capitalization** The Company's equity base stood at ~PKR 8,273mln at end-Sep'22 compared with ~PKR 6,571mln at end-Dec'21. The current level of equity base is considered good.



	Sep-22 CY22 9M Management	Dec-21 CY21 12M Audited	Dec-20 CY20 12M Audited	PKR MLN Dec-19 CY19 12M Audited
<b>BALANCE SHEET</b>				
<b>A ASSETS</b>				
1 MICROCREDIT - NET LOAN PORTFOLIO	17,151	13,791	10,015	9,612
2 INVESTMENTS	-	-	-	-
3 CASH	2,222	819	905	897
4 NON-CURRENT ASSETS	255	192	192	213
5 OTHER ASSETS	2,528	1,056	715	509
<b>SUM OF ASSETS</b>	<b>22,156</b>	<b>15,859</b>	<b>11,826</b>	<b>11,231</b>
<b>B LIABILITIES</b>				
1 DEPOSITS	-	-	-	-
2 BORROWINGS	12,715	8,605	6,540	6,842
3 OTHER LIABILITIES	1,168	683	452	527
<b>SUM OF LIABILITIES</b>	<b>13,883</b>	<b>9,287</b>	<b>6,992</b>	<b>7,368</b>
<b>C EQUITY/FUNDS</b>				
	<b>8,273</b>	<b>6,571</b>	<b>4,835</b>	<b>3,862</b>
<b>INCOME STATEMENT</b>				
<b>D INCOME</b>				
1 MARK UP EARNED	5,212	5,229	4,045	4,339
2 MARK UP EXPENSED	(1,336)	(1,068)	(1,003)	(1,194)
<b>FINANCIAL RETURNS</b>	<b>3,877</b>	<b>4,161</b>	<b>3,042</b>	<b>3,145</b>
3 OTHER OPERATING INCOME	(18)	(68)	(41)	2
4 NON-OPERATING INCOME	-	59	10	9
<b>TOTAL INCOME</b>	<b>3,859</b>	<b>4,152</b>	<b>3,011</b>	<b>3,156</b>
<b>E EXPENSE</b>				
1 OPERATING EXPENSE	(1,573)	(1,490)	(1,237)	(1,034)
2 PROVISIONS	(139)	(321)	(432)	(175)
<b>TOTAL EXPENSE</b>	<b>(1,712)</b>	<b>(1,811)</b>	<b>(1,669)</b>	<b>(1,209)</b>
<b>F PROFIT/SURPLUS</b>				
1 PRE-TAX PROFIT/SURPLUS	2,146	2,341	1,342	1,947
2 TAX	(737)	(687)	(393)	(563)
<b>PROFIT/SURPLUS</b>	<b>1,409</b>	<b>1,655</b>	<b>949</b>	<b>1,383</b>
<b>RATIOS</b>				
<b>G SOCIO-ECONOMIC STATISTICS</b>				
1 Female Borrowers	95.7%	97.2%	98.3%	98.6%
2 Rural Borrowers	39.0%	40.7%	41.8%	20.0%
3 Client Retention Rate	89.6%	80.6%	75.5%	77.3%
<b>H PERFORMANCE</b>				
1 Operational Self Sufficiency (OSS)	170.4%	179.3%	149.8%	180.6%
2 Cost per Borrower	3,782	3,193	2,878	2,356
3 Portfolio Yield	43.6%	42.5%	39.3%	44.0%
4 Minimum Lending Rate	25.4%	23.1%	26.2%	24.6%
5 Return on Equity	25.3%	29.0%	21.8%	39.6%
<b>I ASSET QUALITY</b>				
1 PAR 30 Ratio	1.6%	0.3%	5.5%	2.1%
2 Risk Coverage Ratio (PAR 30)	0.9	5.0	0.5	0.6
3 Write Off Ratio	0.5%	3.2%	2.3%	0.9%
<b>J LIQUIDITY &amp; FUNDING</b>				
1 Liquid Assets as a Percentage of Deposits & Short-term Borrowings	37.1%	27.2%	25.4%	26.4%
2 Demand Deposit Coverage Ratio	N/A	N/A	N/A	N/A
3 Loan-to-Deposit Ratio	N/A	N/A	N/A	N/A
<b>K CAPITALIZATION</b>				
1 Capital Adequacy Ratio (CAR)	39.0%	42.2%	40.9%	34.4%
2 Debt to Equity	1.7	1.4	1.4	1.9

### Social Impact and Performance Rating (SIP)

An independent opinion on the ability of an entity to create intended social impact and achieve sustainable performance.

Scale	Definition
SIP1	<b>Very Strong.</b> Very strong ability to create intended social impact and very high likelihood of sustaining performance.
SIP2++ SIP2+ SIP2	<b>Strong.</b> Strong ability to create intended social impact and high likelihood of sustaining performance.
SIP3++ SIP3+ SIP3	<b>Adequate.</b> Adequate ability to create intended social impact and adequate likelihood of sustaining performance.
SIP4++ SIP4+ SIP4	<b>Inadequate.</b> Inadequate ability to create intended social impact and low likelihood of sustaining performance.
SIP5	<b>Weak.</b> Weak ability to create intended social impact and very low likelihood of sustaining performance.

**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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

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

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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)

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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)

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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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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

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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)

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(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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