



## 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	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Apr-2024	BBB+	A2	Positive	Maintain	-
04-Sep-2023	BBB+	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

ASA Microfinance Bank (Pakistan) Limited ('ASA' or the 'Company') is a public unlisted company and is owned by ASA International (ASAI) Holding with an ownership stake of ~99.99%. The ASA International Group Plc, a publicly listed company on the London Stock Exchange, stands as one of the world's leading international microfinance institutions encompassing branches in 13 countries across Asia and Africa. ASA is dedicated to its mission of providing microfinance services to underprivileged households in Pakistan, emphasizing financial inclusion and empowerment of women. A strong governance framework is supported by a well-defined organizational structure with an experienced management team ensuring smooth operations. The Company's lending strategy has proven to be quite effective, with consistently strong performance over the years and notable growth in lending operations. Additionally, the incidence of non-performing loans has significantly decreased, indicating robust risk management practices. As of CY23, the advances portfolio stood at ~PKR 19 bln, reflecting a growth of 8% compared to CY22. The Company secures ~4% market share in terms of GLP amongst the microfinance banks and institutes as of end-Dec`23. On financial profile side, the Company has managed to make a growth of 31.5% with a recorded topline of PKR 9.6bln for CY23 (CY22: PKR 7.3bln). While the PAT grew by 25% and was reported at PKR 2.5bln (CY22: PKR 2bln), with the markup expense being the limiting factor. Due to the substantial growth in income relative to the expense base, the OSS reflects marked improvement and is deemed to be robust. The Company's equity stood at ~PKR 10bln in CY23. ASA converted into a Microfinance Bank in Nov'23 as a non-deposit lending institution. Consequently, the Company has implemented a Core Banking System and is currently in the testing phase, following which, it intends to proceed with the conversion into a deposit-taking institution. With the Company presently not having the ability to raise deposits, the operations are funded by a mix of borrowings & equity. The positive outlook denotes the Company's consistent improvement in its financial performance and sustained growth. The Company is highly dependent on funding, and while liquidity has improved in CY23, it is still considered low. The liquidity in terms of GLP is ~6% and in relation to equity it stands at ~12% as at end-Dec'23. Geographically, the company's operations have primarily focused on Sindh and Punjab. Expansion plans are underway for KPK and Balochistan regions.

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

#### Disclosure

<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>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23),Methodology   Microfinance Institution Rating(Oct-23)
<b>Related Research</b>	Sector Study   Microfinance(Sep-23)
<b>Rating Analysts</b>	Hassan Ahmad   Hassan.Ahmad@pacra.com   +92-42-35869504



## Profile

**Structure** ASA Microfinance Bank (Pakistan) Limited ('ASA' or 'the Company') is a public unlisted company having share capital incorporated on 19th March 2008 under the repealed Companies Ordinance 1984.

**Background** ASA was granted a commencement of Business license on 28th July 2008. The Company is part of the ASA international group. The Company is converted into a Microfinance Bank in Nov'23 as a non deposit lending institution.

**Operations** The principal activity of ASA is to provide micro-finance facilities to the less fortunate people in Pakistan. As of Dec'23, the Company operates from its Head Office based in Karachi and has 72 branches and 273 Service centers across Pakistan. The branches are concentrated in Punjab and Sindh while there is one branch each present in Balochistan and KPK.

## Ownership

**Ownership Structure** The Company is 99.99% owned by ASA International Holding, which is based out of Mauritius. ASA International operates in South Asia, South East Asia, West Africa, and East Africa.

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

**Business Acumen** The group is one of the world's largest international 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 490mln and a consolidated equity position of ~USD 90mln at end-Dec'23. ASA International Group PLC is also listed on the London Stock Exchange with a share price of ~£ 48 on 23rd April 2024.

## Governance

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

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

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

**Transparency** EY Ford Rhodes Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the financial statements for CY23. The firm is in the A Category of SBP's panel of auditors. Furthermore, the Company also has an internal audit department for a greater control framework.

## Management

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

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

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

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

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

**Technology Infrastructure** ASA has software sourced from ASA International which allows for real-time report generation. On the other hand, the loan disbursements and collections process is currently all manual and done through cash transactions.

## Business Risk

**Industry Dynamics** 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.

**Relative Position** The Company has an Outstanding Loan Portfolio (OLP) amounting to ~PKR 19bn at end-Dec'23, which constitutes a market share of ~4% as per the OLP of microcredit institutions in the country.

**Revenue** The Company earned ~PKR 9,632mln in revenue during CY23 as compared to ~PKR 7,346mln in CY22. The Company's revenue stems from loan service charges (Interest income), risk coverage fees, and loan processing fees. The top line is supported by profit earned on bank deposits amounting to ~PKR 302mln during CY23 (CY22: ~PKR 113mln).

**Profitability** The Company earned a net surplus of ~PKR 2,473mln during CY23 as compared to ~PKR 2,062mln during CY22.

**Sustainability** ASA is focusing on technology integration to streamline its operations in the coming year. Furthermore, the Company has plans to convert the Company to a microfinance bank shortly, which will have major implications for its business operations Financial Risk

## Financial Risk

**Credit Risk** Despite the current economic situation, the Company's write-offs stood at ~PKR 72mln in CY23, depicting the Company's ability to manage its credit risk.

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

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

**Cashflows & Coverages** The total liabilities of the Company stood at ~PKR 12,940mln at end-Dec'23. The Company has a good amount of total assets to cover its current liabilities, standing at ~PKR 23,237mln at end-Dec'23.

**Capital Adequacy** The Company's equity base stood at ~PKR 10,296mln at end-Dec'23 compared with ~PKR 9,270mln at end-Dec'22. The current level of equity base is considered good.



PKR mln

**ASA Microfinance Bank (Pakistan) Limited**  
**Unlisted Public Limited**

Dec-23	Dec-22	Dec-21
12M	12M	12M

**A BALANCE SHEET**

1 Total Finances - net	19,414	17,779	13,959
2 Investments	-	-	-
3 Other Earning Assets	1,180	1,215	811
4 Non-Earning Assets	2,811	3,732	1,256
5 Non-Performing Finances-net	(167)	130	(168)
<b>Total Assets</b>	<b>23,238</b>	<b>22,856</b>	<b>15,859</b>
6 Deposits	-	-	-
7 Borrowings	8,215	11,623	8,605
8 Other Liabilities (Non-Interest Bearing)	4,726	1,964	683
<b>Total Liabilities</b>	<b>12,941</b>	<b>13,587</b>	<b>9,287</b>
<b>Equity</b>	<b>10,297</b>	<b>9,270</b>	<b>6,571</b>

**B INCOME STATEMENT**

1 Mark Up Earned	9,632	7,346	5,229
2 Mark Up Expensed	(2,188)	(1,922)	(1,068)
3 Non Mark Up Income	(44)	(6)	(9)
<b>Total Income</b>	<b>7,401</b>	<b>5,417</b>	<b>4,152</b>
4 Non-Mark Up Expenses	(3,127)	(2,129)	(1,490)
5 Provisions/Write offs/Reversals	(273)	(55)	(321)
<b>Pre-Tax Profit</b>	<b>4,001</b>	<b>3,234</b>	<b>2,341</b>
6 Taxes	(1,528)	(1,172)	(687)
<b>Profit After Tax</b>	<b>2,473</b>	<b>2,062</b>	<b>1,655</b>

**C RATIO ANALYSIS**

**1 Performance**

Portfolio Yield	49.8%	45.2%	42.5%
Minimum Lending Rate	29.4%	25.1%	23.1%
Operational Self Sufficiency (OSS)	171.6%	177.5%	179.3%
Return on Equity	25.3%	26.0%	29.0%
Cost per Borrower Ratio	5,121.5	3,808.5	3,193.4

**2 Capital Adequacy**

Net NPL/Equity	-1.6%	1.4%	-2.6%
Equity / Total Assets (D+E+F)	44.3%	40.6%	41.4%
Tier I Capital / Risk Weighted Assets	45.4%	41.5%	42.2%
Capital Adequacy Ratio	45.4%	41.5%	42.2%
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	26.7%	31.4%	34.2%

**3 Funding & Liquidity**

Liquid Assets as a % of Deposits & Short term Borrowings	38.8%	38.6%	27.2%
Demand Deposit Coverage Ratio	N/A	N/A	N/A
Liquid Assets/Top 20 Depositors	N/A	N/A	N/A
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	0.0%	0.0%	0.0%
Net Advances to Deposits Ratio	N/A	N/A	N/A

**4 Credit Risk**

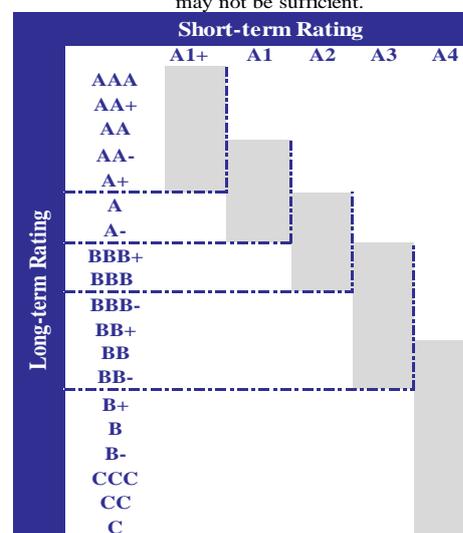
Top 20 Advances / Advances	0.0%	0.0%	0.0%
PAR 30 Ratio	0.3%	1.4%	0.3%
Write Off Ratio	0.4%	0.6%	3.2%
True Infection Ratio	0.7%	1.9%	3.0%
Risk Coverage Ratio (PAR 30)	383.2%	46.9%	497.3%

### 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+	
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-	
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):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

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- 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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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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