

FINCA Microfinance Bank Limited

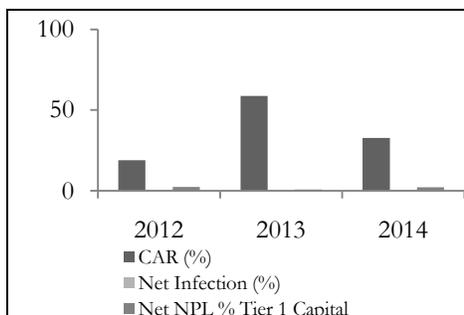
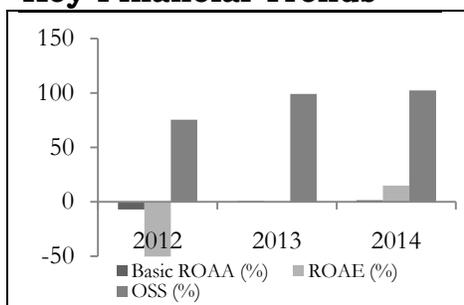
Chairman: Ms. Zar Wardak; Chief Executive Officer: Mr. Mudassar Aqil

May 05, 2015

Analysts: Maimoon Rasheed
Zaigham Abbas Shah

Category	Latest	Previous
Entity	A-/A-2 <i>Apr 30, '15</i>	A-/A-2 <i>Apr 30, '14</i>
Outlook	Positive	Stable

Key Financial Trends



	2012	2013	2014
Net Financings (Rs. in b)	1.1	2.0	4.0
Deposits (Rs.in b)	1.7	2.7	4.7
Deposit Cost (%)	8.9	9.9	10.0
Profit / (Loss) (Rs.in m)	(136.5)	1.4	176.1
Equity (Rs. in b)	0.27	1.1	1.3
CAR (%)	19.0	58.8	34.3
Liquid Assets % Deposits & Borrowings	34.1	55.8	28.1
Net Infection (%)	0.56	0.47	0.69

Rating Rationale

The ratings take into account association of FINCA Microfinance Bank Limited (FINCA MFB) with FINCA International, an institution having vast global experience in the microfinance sector through its various subsidiaries. The ratings also incorporate robust operational platform of FINCA MFB translating into a larger loan book and deposit base. During FY14, the bank has streamlined structural reforms in line with global standards of FINCA International where the management structure and operational policies experienced further rationalization. Post FY14, the board has accorded the formation of risk management committee. The management team has depicted stability and comprises experienced professionals.

Given higher advances to deposits ratio, liquid assets carried on balance sheet declined by end-FY14. Moreover, the bank has also mobilized commercial borrowings with plans to enhance the same, going forward. Given the rapid growth plans of the bank, focus is likely to remain on big ticket deposits. Developing a broad based depositor profile may take some time. In view of this, the bank may need to maintain a larger liquidity cushion on balance sheet to cater to large withdrawals.

During FY14, the bank expanded its network by opening multiple branches while transforming all sales and service centers into permanent booths. Leveraging on solid platform, the bank has doubled its financing portfolio during the year. Microcredit portfolio of the bank is mainly concentrated in urban market. In efforts to strengthen its product offering and explore the under-served rural market, the bank has launched some new products; contribution from which will be ascertained over time.

Infection levels remain within manageable limits. Subject to capacity development of branch personnel, the risk management department intends to limit itself to supervisory role in the credit process and spare resources to focus on market, operational and liquidity risks.

As expected, FY14 was the first fully profitable year since the bank's inception. The interest income augmented on the back of volume expansion and higher spreads. Larger client base also helped increase the loan processing fees which continue to supplement the bottom line. Overheads continue to remain high during FY14. Given consolidation in network along with focus on portfolio growth and staff productivity, overheads may rationalize over time. However, given the nature of loan portfolio, these may persist higher than peer banks in at least the near to medium term.

The bank's equity augmented by end-FY14 on the back of enhanced retained earnings. With expansion in credit portfolio, Capital Adequacy Ratio (CAR) of the bank declined, though remained comfortably above the minimum regulatory requirements. Given future growth plans of FINCA MFB, the bank is in the process to invite further capital of around Rs. 570m in 1HFY15 which will help enhance the loan book while maintaining CAR well above regulatory requirement during FY15.

Overview of the Institution

FINCA Microfinance Bank Limited (FINCA MFB), formerly Kashf Microfinance Bank Limited, commenced operations in October, 2008 under the Microfinance Institutions Ordinance 2001. The bank provides microfinance services to the poor and under-banked segments of the society. The bank has presence in more than 85 cities across the country. External auditors of the bank for FY14 were M/s M. Yousuf Adil Saleem & Co., Chartered Accountants JCR-VIS