

RATING REPORT

FINCA Microfinance Bank (FINCA MFB)

REPORT DATE:

May 02, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
Rating Outlook	Stable		Stable	
Rating Date	April 27, '17		Jan 09, '17	

COMPANY INFORMATION

Incorporated in 2008

External auditors: Deloitte Yousuf Adil Saleem & Co.

Public Limited Company

Chairperson of the Board: Zar Wadak

CEO: Mr. Mudassar Aqil

Key Shareholders (with stake 5% or more):

FINCA Microfinance Coopertief U.A - 86.4%

Kashf Holdings(Private) Limited – 5.2%

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Micro-Finance Banks (May 2016)

<http://www.jcrvis.com.pk/kc-meth.aspx>

FINCA Microfinance Bank (FINCA MFB)

OVERVIEW OF THE INSTITUTION

FINCA Microfinance Bank Limited (FINCA MFB) previously Kashf Microfinance Bank Limited, was incorporated in June, 2008 as a public limited company under the Companies Ordinance, 1984. The ultimate holding company of FINCA MFB is FINCA International Inc., a not-for-profit corporation incorporated in Washington D.C., U.S.A.

Profile of Chairman

Ms. Zar Wardak serves as regional director of FINCA International (Middle East & South Asia). She carries over 10 years of experience in executive financial management.

Profile of CEO

Mr. Mudassar Aqil joined FINCA MFB as CEO in 2011. Prior to joining FINCA, he worked for 14 years at a leading commercial bank in Pakistan and the United States. He also serves as a director on the Board of Pakistan Microfinance Network.

Financial Snapshot

Net equity: FY16 – Rs.2.4b, FY15 – Rs.1.9b

Net profit: FY16 – Rs. 630.9m; FY15: Rs. 166.7m

RATING RATIONALE

The ratings assigned to FINCA Microfinance Bank (FINCA MFB) take into account its association with FINCA International, a global microfinance organization operating in 21 countries including Pakistan. FINCA MFB continues to receive support from its parent through transfer of technical expertise emanating from FINCA's global experience. The ratings also take into account continuing improvement in the operating performance of FINCA MFB as reflected by growing market share, sustained asset quality and improved profitability providing impetus to the internal capital generation of the bank.

Credit Risk: With bank's micro credit portfolio growing faster than peer microfinance banks, market share (in terms of gross loan portfolio and within MFB's) of the bank improved to 11.4% (FY15: 9.8%) at end-FY16. Micro credit lending entailing higher ticket size continue to be the forte of the bank with outstanding average loan size of the bank increasing to Rs. 76,279 at end-FY16 (FY15: 59,889). Microcredit portfolio reflects an adequate diversification of agricultural, livestock and enterprise loans and among Equal Monthly Installment (EMI) and Bullet repayment structures. Asset quality indicators improved during the year with gross infection reported at 1.1% (FY15: 2.3%) at end-FY16. Going forward, advances portfolio are projected to grow at a fast pace underpinned by expanding branch network and higher average loan sizes.

Liquidity & Funding: Deposits continue to be the primary source of funding for the bank. At end-FY16, deposit base increased to Rs.11.1b (FY15: Rs.6.1b). Deposit mix witnessed less than desirable changes with proportion of term deposit increasing to 69.3% (FY15: 64.7%). Deposit profile of the bank reflects high concentration with the proportion of top 50 deposits representing 44.6% (FY15: 39.2%) of total deposits. Developing a broader depositor base is required to mitigate the risk of large withdrawals; however till the time such granularity is achieved, the bank may need to maintain a larger liquidity cushion on the balance sheet.

Capitalization: At end-FY16, Tier-1 equity increased to Rs. 2.4b (FY15: Rs. 1.9b) on account of profit retention. With expansion in the microcredit portfolio along with lower proportion of gold backed loans, Capital Adequacy Ratio (CAR) of the bank reduced to 20.6% (FY15: 30.5%) at end-FY16. To strengthen its CAR, the bank is exploring various options.

Profitability: With significant growth in earning assets on account of higher advances portfolio, income from mark-up bearing assets increased to Rs. 3.0b (FY15: 1.9b) during FY16. With the decline in cost of funds and largely sustaining return on markup bearing assets, spreads of the banks improved. Improvement was also noticed in the overheads and Operating Self Sufficiency. Accounting for taxation, net profit amounted to Rs. 630.9m (FY15: Rs. 166.7m) during FY16.

Branchless Banking (BB): Commercial launch of branchless banking operations is expected during the ongoing year. As per the Digital Finance Services (DFS) strategy, the bank aims to digitalize its existing branch banking services as well as offering customers digital mobile wallets. DFS is expected to improve customer experience while also offering process efficiencies to the bank. Moreover, the bank aims to generate sizeable revenues from branchless banking operations, going forward.

FINCA Microfinance Bank (FINCA MFB)
Annexure IV

FINANCIAL SUMMARY			(amounts in Rs. Millions)
BALANCE SHEET	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Net Investments	1,885.3	1,039.2	447.5
Net Financing	10,082.3	5,418.7	3,994.7
Total Assets	15,618.0	8,451.9	6,380.5
Total Deposits	11,070.0	6,057.4	4,656.2
Borrowings	1,350.0	115.0	201.1
Tier-1 Equity	2,420.0	1,915.2	1,263.9
Net Worth	2,432.6	1,933.5	1,282.2
INCOME STATEMENT	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Net Mark-up Income	2,338.5	1,365.1	885.9
Net Provisioning / (Reversal)	219.2	105.7	47.8
Non-Markup Income	551.6	326.2	235.2
Operating Expenses	1,683.2	1,340.0	1,030.6
Profit after tax	630.9	166.7	176.1
RATIO ANALYSIS	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Gross Infection (%)	1.1%	2.3%	0.9%
Incremental Infection (%)	1.0%	3.0%	1.8%
Provisioning Coverage (%)	26.0%	11.4%	23.0%
Net Infection (%)	0.8%	2.1%	0.7%
Net NPLs to Tier-1 Capital (%)	3.5%	5.8%	2.2%
Capital Adequacy Ratio (%)	20.6%	30.5%	34.3%
Cost of Funds (%)	7.6%	9.2%	10.1%
Markup Spreads (%)	24.0%	22.0%	21.5%
OSS (%)	138.5%	111.8%	101.8%
ROAA (%)	5.2%	2.2%	3.4%
ROAE (%)	29.1%	10.5%	15.0%
Liquid Assets to Total Deposit & Borrowings (%)	31.8%	29.3%	28.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure V

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Annexure VI			
Name of Rated Entity	FINCA Microfinance Bank (FINCA MFB)				
Sector	Micro Finance Bank (MFB)				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	27-Apr-17	A	A-1	Stable	Reaffirmed
	09-Jan-17	A	A-1	Stable	Upgrade
	26-April-16	A-	A-2	Positive	Reaffirmed
	30-April-15	A-	A-2	Positive	Maintained
	30-April-14	A-	A-2	Stable	Upgrade
	30-April-13	BBB+	A-3	Stable	Upgrade
	09-May-12	BBB-	A-3	Rating Watch - Developing	Downgrade
	29-April-11	BBB	A-3	Rating Watch - Developing	Maintained
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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