

Advans Pakistan Microfinance Bank Limited

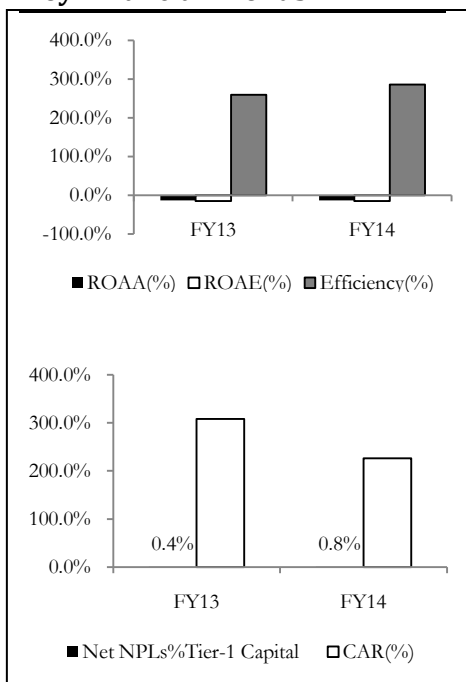
Chairman: Dr. Claude Falgon; CEO: Mr. Tariq Khan Baluch

April 29, 2015

Analysts: *Sobia Maqbool, CFA*
Muniba Khan

Category	Latest	Previous
Entity	BBB+/A-3	BBB+/A-3
	April 28, '15	April 25, '14
Outlook	Stable	Stable

Key Financial Trends



	2013	2014
Net Financings	42.1	98.5
Deposits	10.6	14.6
Deposit Cost (%)	3.6%	4.1%
Loss before Tax	99.8	88.2
Equity	636.2	547.3
CAR (%)	308	226
Liquid Assets (in relation to) Deposits & Borrowings (x)	59x	28x
Net Infection (%)	1.7	1.2

Rating Rationale

The assigned ratings take into account the strong sponsor profile of Advans Pakistan Microfinance Bank Limited (APMBL). Being part of a large global network, APMBL benefits from the multi-jurisdiction experience of Advans SA, SICAR. Given that the bank anticipates a negative bottom line for the next two years, a need for equity injection may arise to remain compliant with the Minimum Capital Requirement. In view of this, the bank is looking to identify a shareholder with projected equity injection of Rs. 300m. In the absence of any new investor, APMBL's parent group has ensured to inject a total of Rs. 150m by end-HY15. Some fresh capital injection would be required to bridge the shortfall in capital that may arise from expected losses in FY15 to ensure compliance with the minimum capital requirement applicable for micro-finance banks operating at provincial scale while the bank also wants to scale up its operations to national scale by end-FY19, capital requirement for which is higher.

In line with closure of its first phase of Technical Assistance program, significant changes have been witnessed in the management structure including implementation of a new organogram and complete transition of management from foreign expats to local resources. The bank has appointed a CEO and Head of Operations with extensive experience in the microfinance industry.

Gross advances portfolio amounted to Rs. 102.6m (FY13: Rs. 44.5m), at end-FY14. Growth in advances remained subdued in comparison to initial target for FY14 on account of turnover at LO level. However, disbursements picked up pace during the last quarter of 2014. The bank's loan products are primarily geared to provide micro-credit to entrepreneurs. APMBL launched a gold backed product during FY14. Going forward, management intends to increase gold based lending up to a maximum of 25% of the financing portfolio with up to 50% to be deployed in Karobar Sanwaro loan. Asset quality indicators will be tested as the bank builds its portfolio. Having a provincial license with presence in Karachi only, the bank is exposed to geographical concentration risk.

Both liquidity and capitalization levels are currently high and expected to be absorbed over time as the bank forges ahead with its growth plans. Over time, loans are projected to comprise as much as 84% of asset mix. Funding strategy will also evolve and may include external borrowings. Given the low contribution of advances to assets currently, earnings have also been a function of investments; earnings mix will also change as the loan portfolio grows. The bank is incurring an operational loss as earnings are not currently sufficient to absorb administrative costs. APMBL has projected to report operational profit for FY17.

Overview of the Institution

APMBL has a license to operate in the province of Sindh having a network of 3 branches and one permanent booth in Karachi. Financial statements for FY14 were audited by Yousuf Adil Saleem & Co. which is in the 'A' category of SBP's panel of auditors JCR-VIS