



Date

25-Jun-21

Analyst

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Applicable Criteria

- Methodology | FI | Jun-20
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-20
- Criteria | Rating Modifier | Jun-20

Related Research

- Sector Study | DFIs | Jun-20

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PACRA Maintains Entity Ratings of Pakistan Microfinance Investment Company Limited

Rating Type	Entity	
	Current (25-Jun-21)	Previous (25-Jun-20)
Action	Maintain	Maintain
Long Term	AA	AA
Short Term	A1+	A1+
Outlook	Stable	Stable
Rating Watch	Yes	Yes

The ratings of Pakistan Microfinance Investment Company Limited (PMIC) reflect its strong equity base, well-conceived business plan, and strong ownership structure. Pakistan Poverty Alleviation Fund (PPAF), Karandaaz Pakistan - funded by UK's Department for International Development (DFID) - and KfW, a German government-owned development bank – have contributed to the institution's capital in addition to providing subordinated loans (PPAF, Karandaaz Pakistan & KfW). PMIC's target market includes 41 institutions - 30 NBMFIs and 11 MFBs. Of these, the company has developed relationships with 21 MFIs and 3 MFBs and the loan portfolio stood at PKR 23.7bln as of end-Mar'21. The Company has adequate reserve coverage against non-performing loans, however, it is imperative to maintain the asset quality going forward. This is important, as multiple challenges surround the underlying microfinance universe, which the company caters to. For the time being, deferment would alleviate the infectious pressure on the asset quality, but beyond that, the recovery pattern of the underlying microfinance players needs to revive too, if not the historical peak, the optimum level at least to ensure the continued viability. This along with deferral in markup may impact profitability later this year. However, the management is closely monitoring affairs in underlying microfinance players and is confident that the ensuing challenges would be managed. The Company's net revenue improved YoY along with net profitability. The Company is focusing on Microfinance Funding sources comprised of subordinated loans from sponsors and commercial borrowings which have supported balance sheet growth. Rating Watch captures the heightened need to exercise vigilance on the exposures that the Company has taken in the wake of the COVID-19 Pandemic. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures are taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the microfinance industry remained protected and posted record profits. Vigilance is required as the loan repayment cycle remains amid variants of the pandemic continue to re-emerge.

The ratings are dependent on maintaining portfolio quality. Upscaling of the Microfinance Products and stability in the experienced management team, the Company's ability to sustain credit quality is considered important; maintaining a strong control environment remains central to the Company's performance and hence the ratings.

About the Entity

PMIC, incorporated in August 2016, is licensed to carry out Investment Finance activities as a Non-Banking Financial Company (NBFCs) under the NBFC Rules 2003 and NBFC Regulations 2008. The strong sponsors, PPAF (49%), Karandaaz (38%), and KfW (13%), strengthen the financial profile of PMIC, enabling it to meet its objectives of enhancing the liquidity of the microfinance sector. The Company operates through its head office in Islamabad. The board of PMIC comprises six members, including one representative each of PPAF, Karandaaz Pakistan, and KfW Development Bank. There are two independent directors on the board including the chairman, providing additional independent oversight. The board is chaired by Mr. Naveed A. Khan, a former leading banker, carrying more than 30 years of experience at various senior positions. Mr. Yasir Ashfaq, CEO of the Company carries experience of more than ~20 years. The previous CFO, Mr. Fahad Asad, has left PMIC and Mr. Safwat Khalid has joined as new CFO in

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.