

**Date**

25-Jun-20

Analyst

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Applicable Criteria

- Methodology | MFI | Jun-19
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-19
- Criteria | Rating Modifier | Jun-19

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-20)	Previous (27-Dec-19)
Action	Maintain	Maintain
Long Term	AA	AA
Short Term	A1+	A1+
Outlook	Stable	Stable
Rating Watch	YES	-

The ratings of Pakistan Microfinance Investment Company Limited (PMIC) reflect its strong equity base, well-conceived business plan and a 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). First tranche of subordinated loan from KfW for Renewable Energy Project amounting to € 5mln (total € 15mln) is now expected in July-20, which will further augment the capitalization of the institution. PMIC is distinctly positioned as an apex lending institution for the micro finance sector, in addition to its role to develop the sector and facilitate the evolution of the eco-system. PMIC's target market includes 42 institutions - 31 NBMFIs and 11 MFBs. Of these, the company has developed relationships with 21 MFPs and 3 MFB and the loan portfolio stood at PKR 24bln as of end-Mar'20. A standalone infection has emerged in the recent period which has been fully provided. It is crucial to hold the asset quality, going forward. This is important, as multiple challenges surround the underlying microfinance universe, which the company caters too. For the time being, deferment would alleviate the infectious pressure on the asset quality, but beyond that, recovery pattern of the underlying microfinance players need to revive too, if not the historical peak, optimum level at least to ensure the continued viability. This along with deferral in markup may impact profitability in the upcoming year. However, the management is closely monitoring affairs in underlying microfinance players and is confident that the ensuing challenges would be managed. Covid-19 has posed challenges to the sector, as all segments of the economy, worldwide and domestically, are getting negatively impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed. To hold asset quality is of utmost importance in the wake of pending risks to the customer universe. The company's profitability took hit in 2019 due to one exposure, though rebounded in 1QCY20. The company is focusing on Microfinance Funding sources comprises, subordinated loans from sponsors and commercial borrowings which have supported balance sheet growth. The company's operations have been designed on efficient lines with a good control environment. Rating Watch captures the heightened need to exercise vigilance on the exposures that the company has taken in the wake of Covid-19 Pandemic.

The ratings are dependent on maintaining portfolio quality. Up scaling 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 liquidity of microfinance sector. The Company operates through its head office in Islamabad. The board comprises seven members, including two representatives of PPAF, and one each of Karandaaz, and KfW, while two directors are independent. 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. Key management positions are held by qualified and experienced individuals. Most of them have a lengthy association with the microfinance sector in general, banking and PPAF in particular.

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.