

## Date

23-Jun-23

## Analyst

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## Applicable Criteria

- Methodology | Financial Institution Rating | Jun-22
- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jun-22
- Methodology | Rating Modifiers | Jun-22

## Related Research

- Sector Study | DFIs | Jun-23

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## PACRA Maintains Entity Ratings of Pakistan Microfinance Investment Company Limited

Rating Type	Entity	
	Current (23-Jun-23)	Previous (25-Jun-22)
<b>Action</b>	Maintain	Maintain
<b>Long Term</b>	AA	AA
<b>Short Term</b>	A1+	A1+
<b>Outlook</b>	Stable	Stable
<b>Rating Watch</b>	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), Karandaz 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, Karandaz Pakistan & KfW). PMIC's target market includes 42 institutions - 30 NBMFIs and 12 MFBs. Of these, the company has developed relationships with 21 MFIs and 3 MFBs and gross financing stood at PKR 27.9bln as of end-Dec'22. Cumulative provisioning witnessed upstick to PKR 1.5bln (end-Dec21: PKR 1.2bln). 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 to. Although, on the credit concentration side, the risk remains high, the management is closely monitoring affairs in underlying microfinance players and is confident that the ensuing challenges would be managed. Going forward, high-interest rates along with a surge in inflation, and attrition in the disposable income of end borrowers will require prudent management of affairs by the microfinance sector in the upcoming year. The Company's net revenue recorded a significant increase of 75% while the net profitability enhanced by 32.6%YoY, supplemented by an additional gain on derivatives. The company's total borrowings are marginally increased by 4%. Rating Watch captures the heightened need to exercise vigilance on the exposures that the Company has taken. The proactive measures taken by the regulators and other concerned bodies have mitigated the potential damages much anticipated from the pandemic. Vigilance is required as the loan repayment cycle remains amid variants of the post-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 (NBFC) under the NBFC Rules 2003 and NBFC Regulations 2008. The strong sponsors, PPAF (49%), Karandaz (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, Karandaz 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 in various senior positions. Mr. Yasir Ashfaq is the CEO of the company and is leading the Company since August 2017. He has more than 25 years of experience in commercial & investment banking, development, and the microfinance sector. He is a Fellow Member of ICMA and also has a Master's in Economics from the University of Sydney. Mr. Hassan Nawaz is the CFO of the company. He is an FCA from ICAP having 14 years of experience mainly in the Banking & Financial Services sector.

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.