

Date

21-Jun-24

Analyst

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Applicable Criteria

- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jul-23
- Methodology | Financial Institution Rating | Oct-23
- Methodology | Rating Modifiers | Apr-24

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 (21-Jun-24)	Previous (23-Jun-23)
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. PMIC's target market includes 42 institutions - 30 NBMFIs and 12 MFBs. PMIC specializes in a dedicated wholesale lending category with an exposure of PKR 29.1bln, serving a client portfolio of 19 MFIs and 5 MFBs with NPLs of PKR 262mln and an infection ratio of ~0.90% as of CY23. The Company has an internal credit risk rating mechanism for borrowers aligned with their credit history and risk absorption capacity. PMIC management is mindful of rationalizing the business matrix and restructuring the balance sheets of their watchlist clients to augment asset quality. The Company has multiple product verticals which include Renewable Energy, Micro-Insurance, Education, Agri & Enterprise Value Chains, Digital Finance, Enterprise Development, Women and Graduation Out of Poverty under the umbrella of Microfinance Plus Products. . The Company intends to diversify their income streams by venturing into multiple business avenues like introducing Islamic lending products for individual consumers through its compliant Microfinance Providers (MFPs), Agriculture products- Electronic Warehouse Receipt to facilitate farmers on outsourcing of warehouses and business correspondence model to untapped markets having limited access by MFIs. Going forward, PMIC will pursue a strategy of ameliorating its funding sources by actively engaging with domestic and international financial institutions and strengthening its equity base through strategic partnerships with impact investors, private equity firms, and development finance institutions. The Board of PMIC is more of an advisory nature and all members, who, in their own right, are reputable and well-educated individuals. The board is accompanied by a management team of seasoned and well-professional individuals. The liquidity framework of the Company evolves around an investment book of PKR 1.8bln mainly dominated by investment in government securities, TFCs and mutual funds. The under-stress microeconomic indicators specifically the consistent surge in KIBOR over the years ultimately elevated the cost of funds for MFIs. However, the latest cut in policy rates and anticipation of a gradual decline in the upcoming quarters will create a cushion for the industry. The industry's loan portfolio requires prudent management mainly on the back of the high level of interest rates. There is visible stress on a few accounts, which the management is actively pursuing.

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%), Karandaaz (38%), and KfW (13%), strengthen the financial profile of PMIC. The board of PMIC comprises seven members, having two independent directors including the Chairman, Mr. Naveed A. Khan. Mr. Yasir Ashfaq is the CEO of the Company since August 2017 and Mr. Hassan Nawaz is the CFO of the Company.

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.