



Rating Action

Lahore : 07-Apr-2016

Analyst

Saira Rizwan
(+92-42-35869504)
saira.rizwan@pacra.com
www.pacra.com

PACRA Assigns 'Positive Outlook' to Ratings of Apna Microfinance Bank

The Pakistan Credit Rating Agency Limited (PACRA) has assigned '**Positive Outlook**' to the long term and short term entity ratings of **BBB+** (Triple B Plus) and '**A3**' (A Three), respectively, of Apna Microfinance Bank Limited (Apna Bank). These ratings denote a low expectation of credit risk emanating from adequate capacity for timely payment of financial commitments.

Apna Bank's ratings reflect the sponsors' demonstrated commitment in providing requisite support - right issue (PKR 550mln) has been completed and the bank has obtained National license (May15) to operate country wide. This, while providing larger operating platform, gives the requisite cushion to risk absorption capacity. Since, May15, notable changes have been witnessed in Apna's business strategy encompassing (i) shifting of Head Office to Punjab - core geography of the sponsors, (ii) rapid expansion mainly in Punjab; 40 new branches opened in 2HCY15, and (iii) strengthening management team. The ensuing benefit is significant build-up of deposit base. Meanwhile, the bank has increased its lending portfolio. Thus achieving good asset quality - currently portfolio at risk is relatively higher than sector norm - both for existing and new disbursements is a key challenge; though expected to rationalize due to geographic change. With on-going branch expansion, operational costs are mounting; these are expected to remain high in CY16. However, the management is eyeing operational profit in CY16 benefiting from increasing business volumes. Strengthening of governance framework and related systems & controls to support expansion remains important.

'Positive Outlook' is assigned to the ratings incorporating improved equity base and subsequent grant of National level license. This should help the bank to improve its market position besides strengthening its standalone profile.

While effective management of transition is important, achievement of operational profit on sustainable basis along with strong asset quality - at par with industry - are requisites for rating upgrade. Meanwhile, board composition in line with regulatory compliance for better governance and team cohesiveness are also important.

About The Bank: Apna Microfinance Bank, listed on PSE, commenced operations in 2005. With an addition of 52 branches during CY15 after receiving National license, the bank, is headquartered in Lahore. It currently operates with a network of 69 branches with concentration in Punjab (31) and Sindh (30). United International Group (UIG) controls ~43% shareholding in the bank through United Insurance Company (38%) and Mr. Mian M. A. Shahid (5%) - the Founder and Chairman of UIG.

A seven member BoD comprises all shareholders of the bank with no independent director. Mr. Farooq Abid Tung - the CEO & President having four decades of financial sector experience - spearheads the bank's operations. The management personnel carries extensive experience in the banking industry; though relatively new to the bank.

Applicable Criteria and Related Research

- Microfinance Banks - Viewpoint | Mar-16
- MicroFinance Institutions Methodology

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