The Pakistan Credit Rating Agency Limited

Rating Report

JWS Pakistan

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Mar-2024	BBB	A3	Stable	Maintain	-
28-Mar-2023	BBB	A3	Stable	Maintain	-
28-Mar-2022	BBB	A3	Stable	Upgrade	-
14-Sep-2021	BBB-	A3	Positive	Maintain	Yes
14-Sep-2020	BBB-	A3	Stable	Maintain	Yes
08-Apr-2020	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

JWS Pakistan ('JWSP' or ‘the Company') is a Non- Banking Microfinance Company governed by the Securities & Exchange Commission of Pakistan (SECP) under Section 42 of the Companies Act,2017 with the status of “Company limited by guarantee”.
Operating since 2015, in the Upper and Central regions of Pakistan’s largest province, the company has steadily expanded its foothold in 22 districts of Punjab with 110 branches. As a not-for-profit organization, the company’s prime focus is community development, particularly women empowerment through the provision of microloans to budding women entrepreneurs who comprise 99% of their borrower base, thus enabling them to develop and expand small businesses. The company offers 8 loan products in the Enterprise, Agriculture, Livestock, SME, and Personal loan segments. With an active borrower base of ~175,892 as of Dec-2023, the company’s loan portfolio is predominantly concentrated in the enterprise segment. Over the years, the company has sizably enhanced its Gross Loan Portfolio (GLP) which has reached PKR 5,920mln as of Dec-23 (PKR 4,393, FY22). Resultantly, the markup earned by the company also increased to PKR 2,138mln in FY23 (PKR 1,381, FY22) and trickled down to profit after tax of PKR 281mln in FY23 (PKR 126mln, FY22). Prudent receivables management and efficient recovery have led to an infection ratio of ~1% which is substantially better than the industry average of ~3.8%. Sustained asset quality will remain an important factor in the future. Further, Room for growth in the technological domain exists. The company relies on diverse sources of funding, predominantly, the PMIC. It has also strengthened its funding base during the last year by garnering funds from international sources which shall fuel growth in the future. Going forward, the industry’s loan portfolio requires prudent management owing to enhanced gross lending rates on the back of elevated policy rate which might impact the financial risk profile particularly the Non-Performing Loans (NPLs). Further, the restriction on the mobilization of deposits modulates the risk absorption capacity supplementing the funding constraints. Despite the macroeconomic challenges including hyperinflation and a surge in interest rates the Portfolio at Risk of the sector (PAR) > 30 days has shown an improvement and reduced to 3.8% in 1HFY24 (6%, FY23).

The ratings are dependent on the Institution's ability to sustain positive performance indicators amidst growth in business volumes. Further, ratings also incorporate vulnerability of the business due to limited geographical presence and low market share. The ratings will monitor expansion of the business and efficacy of its risk mitigation mechanism.

Disclosure

Name of Rated Entity	JWS Pakistan
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23),Methodology | Microfinance Institution Rating(Oct-23)
Related Research	Sector Study | Microfinance(Sep-23)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Structure JWS Pakistan (herein referred to as “JWSP” or ‘‘the Institution’’) was incorporated on 28 December 2015 as a company limited by guarantee under Section 42 of the Companies Ordinance, 1984 (now the Companies Act, 2017). The Institution is licensed to provide Investment Finance Services under the Non-Banking Finance Companies (NBFC) Rules, 2003

Background In 1992, the Jinnah Welfare Society was incorporated as an NGO, with Mr. Qazi Shoaib Alam Farooqi (the CEO) and Mr. Muhammad Jamil Anjum (the CFO) as the founding members of the NGO. In 2015, a separate entity called JWS Pakistan was spun off from the NGO for exclusive services of microfinance in nature

Operations JWSP operates with over 110 branches, in the upper and central Punjab region. Financial products offered by JWSP relate to segments such as Agriculture, Livestock, and Enterprise. Group lending constitutes 95% of the portfolio. The registered office of the Institution is located in Gujranwala

Ownership

Ownership Structure The control vests with members rather than shareholders. Members do not hold any shareholding but they have provided a guarantee of a specified nominal amount as required under the Companies Act 2017 for companies limited by guarantee

Stability JWSP has a proper management succession plan in place. The future outlook is considered stable due to the professionalism in the ranks of the Institution.

Business Acumen The members of JWSP possess a diverse set of skills and experience, providing sanguine oversight over the Institution's strategic direction

Financial Strength NBFCs are distinct relative to other corporate structures. Since members do not receive monetary benefit from its profits, financial support in sponsor backing is unavailable. As an alternative to equity funding, JWS can raise money through debt capital and donations from local and foreign institutions.

Governance

Board Structure The Board of Directors consists of 7 directors, three of which are independent. Directors are elected from the list of members.

Members’ Profile The directors are equipped with experience in financial services. Ms. Sabiha Shaheen, the Chairperson of the Board, has a Master's Degree in Philosophy from Punjab University. With 24 years of experience, she specializes in community development, institutional strengthening, and youth mobilization

Board Effectiveness The presence of experienced directors with diversified backgrounds brings competency to the board’s strategic direction, and therefore, augments well for the governance of JWSP. There are six sub-committees of the board, namely (i) Audit Committee, (ii) Procurement Committee (iii) HR Committee (iv) Asset Disposal Committee (v) Grievance Committee, and (vi) Risk Committee. Quarterly meetings of the committees are also conducted.

Transparency Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants, a QCR-rated firm (Category A as per SBP Panel), expressed an unqualified opinion on the financial statements for the year ended June’22. An internal audit department is in place, which reports to the audit committee on a quarterly basis.

Management

Organizational Structure The organizational structure is simple and effective. There are six functional departments housed in the Head Office. The overall Institution structure includes branches reporting to the area and regional offices which ultimately report to the Head Office

Management Team Mr. Qazi Shoaib Alam Farooqi, the CEO and Founding Member, has an experience of almost three decades in the industry. He earned a postgraduate degree in Political Science from the University of Punjab. After completing his education, he laid down the foundation of the Jinnah Welfare Society (NGO) to serve the marginalized communities of rural areas in Punjab. Other members of the management possess adequate experience from diverse background

Effectiveness Department heads ensure sound department performance, via a systematic decision-making process, regularly meeting the CEO to discuss material matters

MIS An in-house developed MIS called the MCOS, is used. It consists of the modules; (i) Financial Management System, (ii) Credit Management System & Risk Management and (iii) Human Resource Management. The System has an inbuilt processing and approval capability

Risk Management Framework The Institution has well-established standard operating procedures and multiple layers of checks and balances to ensure smooth business operations. This standardization of operations bodes well for transparency in business processes. Further room for enhancement in the risk framework still exists

Technology Infrastructure The microfinance industry has experienced rapid advancement of technology in recent periods and it is now necessary for existing players to have a strong technology infrastructure to sustain their market share. The Institution is continuously investing to increase automation in the processes. It is currently working to integrate its processes so real-time access to all outstanding balances and receipts is available. Room for improvement and growth exists in this domain.

Business Risk

Industry Dynamics During 1QCY23, the microfinance industry which includes MFIs, MFBs & RSP in Pakistan has shown a growth of 3.7% from 4QCY22 to 1QCY23 in terms of Gross Loan Portfolio (GLP). The GLP stood at PKR 509.6bln during 1QCY23 (4QCY24: PKR 491.3bln). The GLP portfolio of MFI reached PKR 88.528bln with an active borrower base of 2.3bln as of 1QCY23. Currently, in Pakistan, there are 24 dedicated Microfinance institutions primarily operating which provide specialized microfinance services. The portfolio at risk (PAR) > 30 days of MFI has shown an improvement and reduced to 3.0% (4QCY22: 2.0%) mainly on the back of the recoveries in the flood-impacted portfolios. The hyperinflationary environment has also impacted the MFI sector which is evident by a PKR 1.7bln surge in disbursements (1QCY23: PKR 31.8bln; 4QCY22: PKR 30.1bln) and PKR 3,282 hike in average loan size (1QCY23: PKR 59,628, 4QCY22: PKR 56,346).

Relative Position Considering the market share of ~1% in terms of the Gross Loan Portfolio of the whole industry, the Institution is considered a small-tier player in the Microfinance sector.

Revenue JWSP earned a gross interest income of PKR 2,138mln during FY23, showcasing a growth of 54% from the corresponding period (FY22: PKR 1,381mln). Net markup income increased by 35% to PKR 1,275mln (FY22: PKR 945mln). Markup expenses increased to PKR 862mln (FY22: PKR 436mln). Moreover, the growth trend continued in 1HFY24 as evidenced by the gross interest income of PKR 1,346mln and net markup income of PKR 774mln.

Profitability During FY23, earning assets reflected 96% of the total asset base (FY22: 92%). Bottom-line recorded noticeable growth clocking in at PKR 281mln during FY23 (FY22: PKR 126mln), reflecting a good increase, supported by the non-mark-up income of PKR 396mln (FY22: PKR 158mln). Non-mark-up expenses of the the institution has also recorded a sizable increase to PKR 1,333mln (FY22: PKR 853mln). The bottom line remained at PKR 145mln during 1HFY24.

Sustainability In the medium-term horizon (5 years), the Institution plans to become a ‘Profit’ Entity, while the ultimate goal is the incorporation as a Microfinance Bank. There is a plan to start the use of tablets in client dealing, in a move towards digitalization. While the JWS has a nationwide operating license, the plan of the the institution is to expand in the province of Punjab, as opposed to other areas where penetration is considered more challenging. Cities like Sargodha and Jhang are marked for imminent expansion.

Financial Risk

Credit Risk The GLP clocked in at PKR 5,397mln as of June'23 (PKR 4,393mln in FY22 – a growth of 23%). With the growth in the overall micro-credit loan portfolio, the Institution witnessed an increase in non-performing loans. The NPLs clocked in at PKR 52mln (FY22: PKR 8mln). The infection ratio increased to 1% (FY22: 1.0%). The GLP further grew to PKR 5,920mln in 1HFY24 with a corresponding increase in NPL to PKR 67mln.

Market Risk The investment book of JWS comprises short-term investments. These represent investments in term deposits placed with various financial institutions and have been classified as 'financial assets at fair value through profit or loss, amounting to PKR 80mln as of end-Jun23.

Funding The funding comprises a long-term loan from PMIC, The Bank of Punjab, Symbiotics SA, and Allied Bank Limited. The debt as of end-Jun23 was recorded at PKR 4,694mln (FY22: PKR 4,141mln). The borrowing stood at PKR 5,313 as at Dec-23.

Cashflows & Coverages During FY23, the liquidity ratio (Liquid Assets/Borrowings) decreased slightly to 19.2% as compared to 19.4% in FY22. However, the liquidity position slightly improved as the quantum of liquid assets inched up by 12% to PKR 901mln (FY22: PKR 804mln).

Capital Adequacy SECP has no minimum requirement for MFIs, unlike SBP which requires MFBs to maintain CAR at 15%. Apart from any regulatory requirement to meet minimum ratios the Institution has to satisfy the covenants of loans. It is necessary for the Institution to comply with those covenants. The equity of the institution comprised of reserves has improved to PKR 1,187mln (end-Jun22: PKR 911mln)

PKR mln

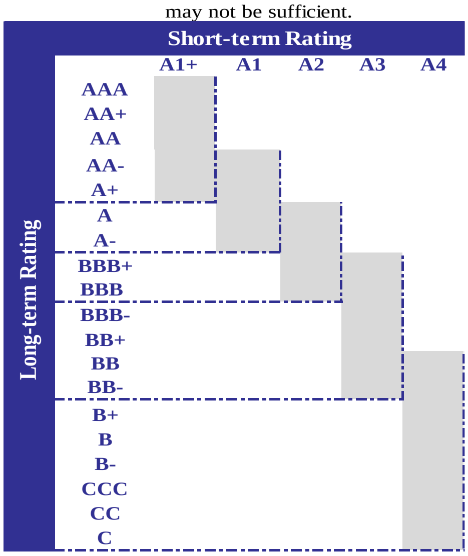
JWS Pakistan Listed Public Limited	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Total Finances - net	5,920	5,397	4,393	2,674
2 Investments	83	80	188	132
3 Other Earning Assets	1,118	751	585	621
4 Non-Earning Assets	376	444	432	275
5 Non-Performing Finances-net	(233)	(221)	(212)	(97)
Total Assets	7,264	6,451	5,386	3,605
6 Deposits	-	-	-	-
7 Borrowings	5,313	4,694	4,141	2,613
8 Other Liabilities (Non-Interest Bearing)	618	570	334	207
Total Liabilities	5,932	5,264	4,475	2,821
Equity	1,332	1,187	911	785
B INCOME STATEMENT				
1 Mark Up Earned	1,346	2,138	1,381	866
2 Mark Up Expensed	(571)	(862)	(436)	(272)
3 Non Mark Up Income	119	396	158	50
Total Income	893	1,671	1,103	645
4 Non-Mark Up Expenses	(722)	(1,333)	(790)	(495)
5 Provisions/Write offs/Reversals	(26)	(57)	(187)	(75)
Pre-Tax Profit	145	281	126	75
6 Taxes	-	-	-	-
Profit After Tax	145	281	126	75
C RATIO ANALYSIS				
1 Performance				
Portfolio Yield	47.1%	43.4%	38.8%	37.1%
Minimum Lending Rate	46.6%	46.0%	38.4%	36.1%
Operational Self Sufficiency (OSS)	102.0%	99.0%	104.4%	103.0%
Return on Equity	23.1%	26.8%	14.8%	10.0%
Cost per Borrower Ratio	8,681.7	8,752.2	7,238.2	6,330.5
2 Capital Adequacy				
Net NPL/Equity	-17.5%	-18.6%	-23.3%	-12.4%
Equity / Total Assets (D+E+F)	18.3%	18.4%	16.9%	21.8%
Tier I Capital / Risk Weighted Assets	N/A	N/A	N/A	N/A
Capital Adequacy Ratio	N/A	N/A	N/A	N/A
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	24.5%	30.9%	16.0%	10.5%
3 Funding & Liquidity				
Liquid Assets as a % of Deposits & Short term Borrowings	N/A	N/A	N/A	N/A
Demand Deposit Coverage Ratio	N/A	N/A	N/A	N/A
Liquid Assets/Top 20 Depositors	N/A	N/A	N/A	N/A
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	0.0%	0.0%	0.0%	0.0%
Net Advances to Deposits Ratio	N/A	N/A	N/A	N/A
4 Credit Risk				
Top 20 Advances / Advances	0.0%	0.0%	0.1%	0.1%
PAR 30 Ratio	1.1%	1.0%	0.2%	1.4%
Write Off Ratio	0.4%	0.3%	1.8%	0.0%
True Infection Ratio	1.5%	1.2%	1.6%	1.4%
Risk Coverage Ratio (PAR 30)	449.9%	526.2%	2885.6%	351.4%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating	
Scale	**Definition**
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ **AA** **AA-**	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ **A** **A-**	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ **BBB** **BBB-**	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ **BB** **BB-**	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ **B** **B-**	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC **CC** **C**	**Very high credit risk.** Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating	
Scale	**Definition**
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)
Proprietary Information