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
08-Apr-2020	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

JWS Pakistan ('JWSP' or the 'Institution') is a Microfinance Institution (MFI) governed by the Securities & Exchange Commission of Pakistan (SECP) under Section 42 of the Companies Act, 2017. The Institution is licensed to operate under NBFC (Establishment and Regulations) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations 2008. It has been in operations since 2015. The key element is that MFIs are not permitted to mobilize deposits, while they are also not backed by any stakeholder equity due to their status of "Companies Limited by Guarantee". These two elements, in combination, provide funding constraints, while they also delimit the boundaries of risk. JWSP is a not-for-profit organization, hence, the source of funding comprises a) internal generation of profits, b) loans and c) grants. Profitability of the Institution is adequate, therefore, integral generation of capital is occurring at a decent rate. Second major source of funding is borrowings. The Institution majorly relies on local avenues for borrowings primarily PMIC. Governance structure takes strength from the body of members and board of directors. The ratings also incorporate the vulnerability in business due to low market share and limited geographical presence. Moreover, the growing impact of economic slowdown lately exacerbated by the global pandemic spread may deteriorate the overall risk profile of the Microfinance Sector, particularly with reference to the quality of assets and risk absorption capacity. Additionally, room for growth in technological domain exists. Overall financial risk profile displays a comfortable outlook with a fine credit quality.

The ratings are dependent on the Institution's aptness to sustain positive performance indicators amidst growth in business volumes. Meanwhile, the ratings would also monitor the impact of technological progression on the operational and risk efficacy of the Institution.

Disclosure

Name of Rated Entity	JWS Pakistan
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | MFI (Jun-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19)
Related Research	Sector Study | Microfinance(Sep-19)
Rating Analysts	Jibran Cheema | jibran.cheema@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 60 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 Non-Banking Financial Institutions are distinct compared to the other corporate structures. Since, the members do not receive monetary benefit from the Institution’s profits, financial support in the form of sponsor backing is not available in this case. As an alternative to equity funding, the Institution 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 extensive experience in financial services. Ms. Sabiha Shaheen, the Chairperson of the Board, has a Masters Degree in Philosophy from Punjab University. With 15 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. During FY19, five board meetings were held. There are five sub-committees of the board, namely (i) Audit Committee, (ii) Procurement Committee (iii) HR Committee (iv) Asset Disposal Committee and (v) Grievance Committee. Quarterly meetings of the committees take place.

Financial Transparency Muniff Ziauddin & Co. Chartered Accountants, a QCR rated firm, has recently been appointed as the External Auditors of the Institution. The prior auditors Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants expressed an unqualified opinion on the financial statements for the year ended June’19. An internal audit department is in place, which reports to the audit committee on a quarterly basis.

Management

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

Management Team Mr. Qazi Shoaib Babar, the CEO and Founding Member, has an experience of more than two 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 Jinnah Welfare Society (NGO) to serve the marginalized communities of rural areas in Punjab. Other members of the management possess adequate experience from diverse backgrounds.

Effectiveness The Institution has a systematic decision making process. Each department head ensures the smooth running of their department, 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 the transparency in business processes. Further room for enhancement in 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 strong technology infrastructure to sustain their market share. The Institution is continuously investing to increase the automation in the processes. It is currently working to integrate its processes so real-time access of all outstanding balances and receipts is available. Room for improvement and growth exists in this domain.

Business Risk

Industry Dynamics Pakistan Microfinance Industry comprises 41 microfinance providers including 11 Microfinance Banks, 15 Microfinance Institutions, 6 Rural Support Programmes and 9 other projects. As at End-6MFY20, the overall industry borrowers stood at ~7.3mln out of which MFIs constitute ~2.5mln active borrowers, representing ~34% of the total market. The Industry Gross Loan Portfolio (GLP) clocked at PKR ~305,743mln out of which MFIs represent 20% i.e. PKR~60,363mln.

Relative Position Considering the market share of 0.8% and 1.2% in terms of GLP and borrowers of the whole industry, respectively, the Institution is considered as a low tier player in the Microfinance sector. With high projected annual growth, there is potential for the market share to improve.

Revenue JWSP earned a gross interest income of PKR~712mln in FY19 with an exceptional growth of 54% YOY basis (FY18: PKR~461mln). Revenue grew due to enhanced business volumes i.e. active borrowers. Similar trend has been noted in 6MFY20, as evident by the gross interest income of PKR ~385mln.

Profitability In 6MFY20, the Institution posted a net surplus of PKR~46mln (FY19: PKR~180mln, FY18: PKR~132mln). Volatility is noted in the respective periods. Profitability improved in FY19, as a result of increased volumes. Although recently, margins have taken a hit due to rising provisioning and finance costs. Spread was impacted by high policy rates, since the long term liabilities of the Institution are KIBOR based.

Sustainability The Institution is underway to implement the use of tablets in disbursals, in a move towards digitization. While JWSP has a nationwide operating license, the plan of the Institution is to expand in Punjab, as opposed to other areas where penetration is considered more challenging. High policy rates and deteriorating economic environment, especially in the wake of pandemic spread, will be the key challenges, going forward.

Financial Risk

Credit Risk JWSP has a well-designed loan approval and disbursement process, laden with internal controls. Asset risk is low due to a fine recovery mechanism and client interactive policies. The GLP as at End-6MFY20 amounted to PKR~2,412mln (End-FY19: PKR~2,176mln). The loan book is most concentrated in the Enterprise segment (77%) followed by Livestock (14%) and Agriculture (9%). The infection ratio as at End-6MFY20 fell to 0.74% (End-FY19: 1.42%), as a result of write-offs during the period, amounting to PKR~26mln.

Market Risk High policy rates coupled with the scenario that microfinance industry is highly competitive and the players find it difficult to pass on the impact of increased interest rate, the market risk in the industry is prevalent. The investment book of JWSP comprises short term Term Deposit Receipts (with Allied Bank Limited) amounting to PKR 100mln as at End-6MFY20.

Funding Funding mix mostly comprises long term loans from financial institutions. Total debt as at End-6MFY20 rose to PKR~2,280mln (End-FY19: PKR~1,906mln). This is in line with the growth in the GLP during the period. Funding received is from local sources, out of which 92% has been obtained from PMIC.

Liquidity JWSP’s liquidity position improved during 6MFY20 as the liquidity ratio (Liquid Assets/Borrowings) rose to 29% as compared to 22% as at End-FY19. The improvement is led by a significant increase in cash and bank balances as at the period end. The advances to funding ratio clocked in at 80% (End-FY19: 83%). Liquidity profile, still, calls for improvement.

Capital Adequacy SECP has no minimum requirement for Microfinance Institutions, with respect to CAR, unlike Microfinance Banks which are required to maintain their CAR at, at least 15%. The total funds and reserves of the Institution as at End-6MFY20 amounted to PKR~734mln (End-FY19: PKR~688mln).

JWS Pakistan

PKR Million

BALANCE SHEET	31-Dec-19	30-Jun-19	30-Jun-18	30-Jun-17
Earning Assets				
Advances	2,394	2,145	1,980	1,222
Investments	100	113	113	100
Deposits with Banks	581	406	107	153
	3,076	**2,664**	**2,200**	**1,476**
Non Earning Assets				
Non-Earning Cash	78	15	25	49
Net Non-Performing Finances	(103)	(78)	(98)	(59)
Fixed Assets & Others	128	124	62	34
	103	**61**	**(11)**	**24**
TOTAL ASSETS	**3,179**	**2,725**	**2,189**	**1,500**
Interest Bearing Liabilities				
Borrowings	2,280	1,906	1,630	1,100
	2,280	1,906	1,630	1,100
Non Interest Bearing Liabilities	165	131	51	24
TOTAL LIABILITIES	**2,445**	**2,036**	**1,681**	**1,124**
EQUITY (including revaluation surplus)	734	688	508	376
Deferred Grants	-	-	-	-
Total Liabilities & Equity	**3,179**	**2,725**	**2,189**	**1,500**

INCOME STATEMENT	31-Dec-19	30-Jun-19	30-Jun-18	30-Jun-17
Interest / Mark up Earned	385	712	461	279
Interest / Mark up Expensed	(180)	(244)	(121)	(52)
Net Interest / Markup revenue	**205**	**467**	**340**	**226**
Other Operating Income	60	93	81	57
Total Revenue	**265**	**561**	**421**	**283**
Other Income	40	45	24	9
Non-Interest / Non-Mark up Expensed	(219)	(404)	(271)	(153)
Pre-provision operating profit	86	201	175	139
Provisions	(40)	(21)	(43)	(33)
Pre-tax profit	46	180	132	106
Taxes	-	-	-	-
Net Income	**46**	**180**	**132**	**106**

Ratio Analysis	31-Dec-19	30-Jun-19	30-Jun-18	30-Jun-17
Performance				
ROE	13%	30%	30%	28%
Cost-to-Total Net Revenue	82%	72%	64%	54%
Provision Expense / Pre Provision Profit	47%	10%	25%	24%
Capital Adequacy				
Equity/Total Assets	23%	25%	23%	25%
Loan Loss Coverage				
Non-Performing Advances /Gross Advances	0.7%	1.4%	0.1%	0.2%
Loan Loss Provisions / Non-Performing Advances	673%	352%	5030%	2250%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	33%	28%	15%	28%
Intermediation Efficiency				
Asset Yield	27%	29%	25%	19%
Cost of Funds	17%	14%	9%	5%
Spread	10%	15%	16%	14%
Outreach				
Branches	61	62	50	36

Credit Rating Scale & Definitions

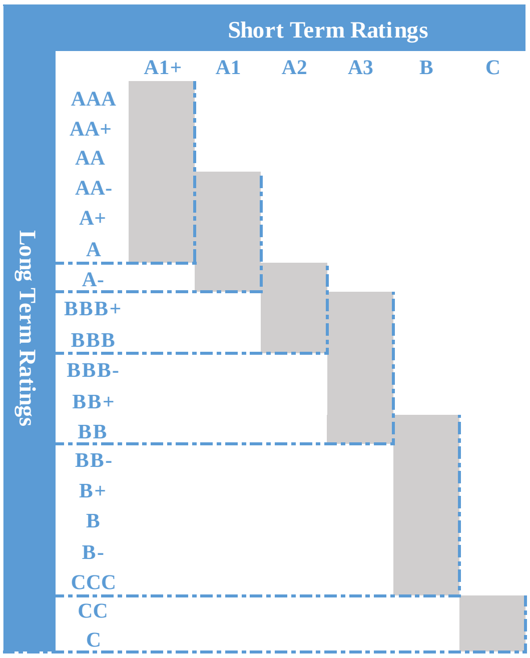
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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 conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) 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.

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

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(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.
(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 | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)
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