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
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 '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. The profitability of the Institution has recently been under pressure, mainly as a result of rising finance costs. 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. A room for growth in the technological domain exists. 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. As evident by the rising infection in credit health of the Institution, JWSP is susceptible to such industry wide challenges. Post March 2020, limited disbursements along with adequate levels of recoveries were observed.

The ratings are dependent on the Institution's aptness to sustain positive performance indicators amidst growth in business volumes. The ratings would also monitor the impact of technological progression on the operational and risk efficacy of the Institution. Meanwhile, the “Rating Watch” reflects the need to oversee the risk profile of the Institution against unavoidable challenges, particularly emanating from economic deterioration in the wake of Covid-19, and its ramifications on the disposable income of the customer base. Impact of locust swarms on the repayment capability of the borrowers in the agricultural segment, also requires oversight.

Disclosure

Name of Rated Entity	JWS Pakistan
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | MFI (Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
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 NBFC's are distinct relative to other corporate structures. Since, members do not receive monetary benefit from its profits, financial support in the form of sponsor backing is not available. 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 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 Auditor 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 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 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's Microfinance Industry comprises 38 microfinance providers including 11 Microfinance Banks, 17 Microfinance Institutions (MFIs), 6 Rural Support Programmes and 4 other projects. As at End-9MFY20, the total number of industry borrowers stood at ~7.3mln (End-FY19: ~7.1mln) out of which MFIs constituted ~2.4mln active borrowers (End-FY19: ~2.3mln), representing 33% of the total market. The Industry Gross Loan Portfolio (GLP) clocked in at PKR~308,557mln (End-FY19: PKR~293,695mln), out of which MFIs represented 20% i.e. PKR~60,354mln (End-FY19: PKR ~49,798mln). Amid economic uncertainty, a slump in growth within the industry is noted. The locust attack in various parts of Punjab and Sindh is expected to have an impact on the credit health of entities, which have a sizable lending mix in the Agri segment. The outbreak of the pandemic Covid-19, has added further uncertainty in the industry, since the consumers are part of a segment, which is deemed to be highly financially vulnerable.

Relative Position Considering the market share of 1%, both in terms of GLP and borrowers of the industry, the Institution is deemed a low tier player in the Microfinance sector. With high projected growth, there is potential for the market share to improve.

Revenue JWSP earned a gross interest income of PKR~745mln in FY20, showcasing a meagre growth of 5% on a YOY basis (FY19: PKR~712mln). The growth was significantly hampered in the wake of economic uncertainty, amid the pandemic Covid-19 and subsequent nationwide lockdowns.

Profitability Experiencing pressure on the bottomline, the Institution posted a paltry net surplus of PKR~27mln in FY20 (FY19: PKR~180mln). Margins have taken a major hit due to rising finance costs along with worsening credit health.

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. The risk of elevated delinquency rates due to pressure on disposable income of the consumer segment, amid deteriorating economic environment, will be a key challenge going forward.

Financial Risk

Credit Risk Credit health of the portfolio has worsened in line with the industry behavior, in the wake of macro-economic challenges. The infection ratio (inclusive of write-offs) as at End-FY20 rose to 2.2% (End-FY19: 1.8%). Due to such economic uncertainty, the management has exercised restraint with regards to fresh disbursement in order to curb further deterioration of credit health. The GLP as at End-FY20 amounted to PKR~1,954mln (End-FY19: PKR~2,176mln). The loan book is most concentrated in the Enterprise segment (75%) followed by Livestock (15%) and Agriculture (10%). The Enterprise segment is potentially most at risk of being affected by the lockdowns in place, due to the spread of Covid-19.

Market Risk Volatile policy rates coupled with the scenario that microfinance industry is highly competitive and the players find it difficult to pass on the impact of falling spread, contribute to the prevalence of market risk in the industry.

Funding The funding comprises a long term loan from PMIC. The debt as at End-FY20 rose to PKR~2,170mln (End-FY19: PKR~1,906mln). The advances to funding ratio fell to 68% (End-FY19: 84%), due to the recent pause in disbursement, in light of economic uncertainty.

Liquidity JWSP's liquidity position improved during FY20 as the liquidity ratio (Liquid Assets/Borrowings) rose to 49% as compared to 28% as at End-FY19. The improvement is led by a significant increase in cash and bank balances as at End-FY20.

Capital Adequacy Unlike for Microfinance Banks, SECP has no minimum requirement for Microfinance Institutions, with respect to CAR. The total funds and reserves of the Institution as at End-FY20 amounted to PKR~716mln (End-FY19: PKR~688mln).

JWS Pakistan

PKR Million

BALANCE SHEET	30-Jun-20	30-Jun-19	30-Jun-18	30-Jun-17
Earning Assets				
Advances	1,941	2,145	1,980	1,222
Investments	-	113	113	100
Deposits with Banks	1,029	406	107	153
	2,970	**2,664**	**2,200**	**1,476**
Non Earning Assets				
Non-Earning Cash	41	15	25	49
Net Non-Performing Finances	(85)	(78)	(98)	(59)
Fixed Assets & Others	164	124	62	34
	121	**61**	**(11)**	**24**
TOTAL ASSETS	**3,090**	**2,725**	**2,189**	**1,500**
Interest Bearning Liabilities				
Borrowings	2,170	1,906	1,630	1,100
	2,170	1,906	1,630	1,100
Non Interest Bearing Liabilities	205	131	51	24
TOTAL LIABILITIES	**2,375**	**2,036**	**1,681**	**1,124**
EQUITY (including revaluation surplus)	716	688	508	376
Deferred Grants	-	-	-	-
Total Liabilities & Equity	**3,090**	**2,725**	**2,189**	**1,500**

INCOME STATEMENT	30-Jun-20	30-Jun-19	30-Jun-18	30-Jun-17
Interest / Mark up Earned	745	712	461	279
Interest / Mark up Expensed	(360)	(244)	(121)	(52)
Net Interest / Markup revenue	**385**	**467**	**340**	**226**
Other Operating Income	60	93	81	57
Total Revenue	**445**	**561**	**421**	**283**
Other Income	63	45	24	9
Non-Interest / Non-Mark up Expensed	(458)	(404)	(271)	(153)
Pre-provision operating profit	50	201	175	139
Provisions	(23)	(21)	(43)	(33)
Pre-tax profit	27	180	132	106
Taxes	-	-	-	-
Net Income	**27**	**180**	**132**	**106**

Ratio Analysis	30-Jun-20	30-Jun-19	30-Jun-18	30-Jun-17
Performance				
ROE	4%	30%	30%	28%
Cost-to-Total Net Revenue	103%	72%	64%	54%
Provision Expense / Pre Provision Profit	46%	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	752%	352%	5030%	2250%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	49%	28%	15%	28%
Intermediation Efficiency				
Asset Yield	26%	29%	25%	19%
Cost of Funds	18%	14%	9%	5%
Spread	9%	15%	16%	14%
Outreach				
Branches	61	62	50	36

Credit Rating

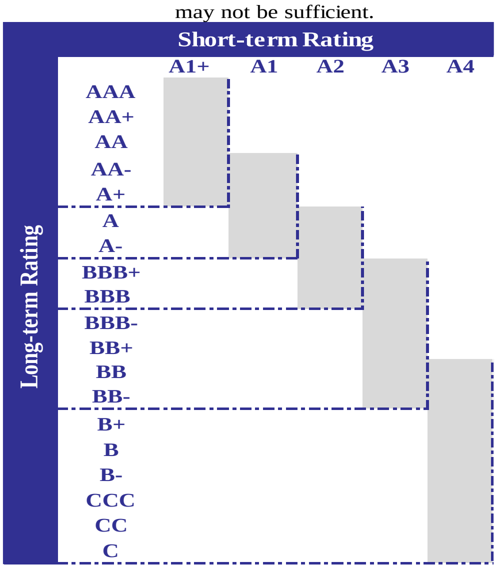
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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.
(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)
Proprietary Information