



The Pakistan Credit Rating Agency Limited

Rating Report

Rural Community Development Programmes

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
13-Dec-2022	SIP3++	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership/Members	RCDP has three members, who have each given a guarantee of up to PKR 100,000 in case of a possibility of default.
Governance	RCDP has strong governance structure backed by a board of directors comprising of eight members including three independent directors. Board committees having independent representation provide additional oversight.
Management	The senior management is qualified and experienced to manage business operations in an efficient manner. Turnover at senior management level is low.
Social Impact	The target community is well-specified; however, the mission statement may be improved to capture defined and measurable targets. RCDP may publish social indicators while increasing the reporting frequency to the BoD. A social impact committee may be established for further oversight.
Business Sustainability	Following the expansion strategy, there is an influx of new clients and growth in gross loan portfolio and average loan size, while the mark-up income also increased compared to FY21.
Financial Sustainability	RCDP is relying on borrowing as the primary source of funding, and the minimum lending rate margin has declined due to a surge in the benchmark rate in FY22. However, the equity of ~PKR 2.5bln generated on the back of internal capital generation provides comfort.

Key Rating Drivers

Rural Community Development Programme ('RCDP' or the 'Company') was formed with the aim to help poor people to improve their livelihood options through the delivery of appropriate and viable microfinance services. RCDP is focused on reducing the barriers to financial inclusion with the expansion of loan portfolios using technological platforms and branchless banking. RCDP provides extensive training to its employees and educates clients on a regular basis. The management may present the client grievance report to the board of directors on a quarterly basis. The depth of the environmental and social management policy may be enhanced further while clearly defining the social impact targets and also having approval from a board-designated committee or BoD itself. Going forward, RCDP's actions toward its goal of social and economic uplift of marginalized communities will be important from the rating perspective. Rationalization of operating expenses and access to funding sources would be critical.

Disclosure

Name of Rated Entity	Rural Community Development Programmes
Type of Relationship	Solicited
Purpose of the Rating	Social Impact and Performance Rating
Applicable Criteria	Methodology Social Impact and Performance Rating(Sep-22)
Related Research	Sector Study Microfinance(Sep-22)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504

Profile

Background Rural Community Development Programme ('RCDP' or the 'Company') is a public unlisted company incorporated on 03rd November 2015 under Section 42 of the repealed Companies Ordinance 1984. The roots of the Company lie with Rural Community Development Support (RCDS), established in 1995.

Scope Of Operations RCDP's aim is to provide financial and non-financial services to the under-banked population with a focus on marginalized communities, in order to enhance the customer's economic role. Additionally, the Company also strives to provide training and education services to customers.

Ownership/Members

Structure The Company currently has three members at the helm as RCDP is a Company limited by guarantee. The members have contributed to the Company as per the regulatory requirement and have provided guarantee of up to PKR 100,000 each in the case of winding up.

Acumen The members have extensive and diversified experience of different industries which they leverage to steer RCDP towards greater heights. The members all have greater than 10 years of experience while Mr. Safdar Ali Malik, a founding member of the Company, has over 20 years of financial sector experience.

Financial Strength The members have the ability to support RCDP by raising funds through donations based on their market renown and profile, if needed.

Governance

Board Structure The Company's Board of Directors (BoD) comprises of eight members, which includes three independent, four non-executive directors and the CEO as an executive director. The Board is chaired by Mrs. Ayesha Gulzar, who is a non-executive director and has been part of the Board since 2016.

Board Profile Through extensive experience, the directors are a source of keen insights for RCDP. The Board has a diverse experience of different industries including banking, medical, telecommunications and Not for profit organizations.

Board Effectiveness Four board meetings were held during FY22. The quality of discussion as captured in meeting minutes reflects the good involvement of the board members in business activities. The Company has formed three committees at the Board level – 1) Audit Committee, 2) Human Resources Committee, and 3) Risk Management Committee. All committees have independent directors representation, strengthening the governance framework.

Transparency RCDP has appointed Grant Thornton Anjum Rahman and Company Chartered Accountants as the external auditors of the Company. The auditors are ranked in the A Category of SBP's panel of auditors.

Management

Organizational Structure The Company has a well-developed organizational structure. Key departments of the Company include: (i) Risk, (ii) Operations, (iii) Finance (iv) Internal Audit, (v) IT, (vi) Communication and Research, (vii) HR, (viii) Administration, (ix) Accounts, (x) Business Affairs, and (xi) Compliance.

Management Team The Company has a qualified and experienced management team in place to ensure streamlined operations. The management team is headed by Mr. Muhammad Murtaza (CEO). The CEO has been at the helm of the Company since the founding of RCDS in 1995 and has been focused towards providing the best services for the impoverished and the needy.

Management Effectiveness The Company's management including the CEO has a practice of conducting monthly review meetings in order to assess RCDP's performance and take action on any items highlighted. Internal audit, compliance and risk departments also present departmental reports during the meeting which are deliberated upon and issues which are highlighted are then addressed.

Risk Management Framework The Company has Risk Management and Compliance departments which perform regular visits to branches to assess multiple risk and compliance parameters. The risk department targets higher risk branches with greater frequency than the low-risk ones. Furthermore, there is a Risk Management Committee (RMC) at the Board level while a risk management manual is also present. Moreover, the Company also has an internal audit department for a greater control framework.

Technology Infrastructure RCDP has software sourced from Generic Solutions which allows for real-time report generation. The software encompasses all relevant areas of the Company. It shows information such as NPLs, portfolio-at-risk, number of clients, number of disbursements, outstanding OLPs and overdue clients, among other details.

Social Impact

Social Performance Management System RCDP has a publicly available mission statement outlining the manner in which the Company intends to serve the market. The statement may include clearly defined and measurable targets. RCDP has developed an environmental and social management policy reflecting RCDP's commitment towards Social and Environmental Impact. The policy may be improved further in terms of depth while clearly defining the social impact targets. The employees undergo sensitivity training to deal with clients in a respectful manner. RCDP quantifies the social indicators in the form of a performance dashboard which is presented to the board of directors on an annual basis. RCDP may consider increasing the frequency of performance dashboard presentations to the board while the social performance indicators may be published through Annual Reports or other mediums of communication. The formation of a Social Performance Committee could be considered.

Client Protection & Social Responsibility RCDP ensures that transparency is present in all dealings with the customers. Customers are informed about all their rights and obligations in writing as well as verbally at the time of onboarding, while any grievances may be addressed through the Company's grievance redressal system.

Outreach The Company's branch network is spread throughout Punjab with 23 operational areas and ~140 operational branches. The Company has ~97% female borrowers and ~65% rural borrowers at end-Jun'22, showing commitment towards providing finances towards the under-banked population in the country.

Quality Of Services There is one primary product offering of the Company – microfinance. This is then broken up into multiple products with different limits and targets different aspects with products ranging from agriculture finance, to livestock finance and home improvement loans. Additionally, the Company strives to provide regular training for customers to educate them on the best practices of business and environment management.

Business Sustainability

Operating Environment The business environment during FY23 has remained challenging so far. The high inflation has squeezed the purchasing power of consumers, and the cost of doing business has also increased. While the economy is largely suffering, RCDP's business has increased due to increased demand for micro-loans by the Company's customers. The rural population affected by the recent floods in the country may have trouble paying back the loans and thus it may affect the microfinance sector in the current year.

Sustainability The Company earned ~PKR 2,193mln in revenue during FY22, as compared to ~PKR 1,679mln during FY21. The growth stems from an increase in the branch networks, enhancing their outreach to the market. The Company earned a net surplus of ~PKR 157mln during FY22 as compared to ~PKR 387mln during FY21.

Strategy RCDP is focusing towards technology integration to streamline operations in the coming year. Furthermore, the Company has plans to convert the company from a not-for-profit organization to a for-profit company in the near future, which will have significant implications towards business operations.

Financial Sustainability

Asset Quality The Company's OLP stood at ~PKR 6,635mln at end-Jun'22, while the PAR30 ratio, which depicts RCDP's portfolio outstanding for more than 30 days, stood at ~4.3% at end-Jun'22. The PAR30 ratio is on the higher side, primarily due to the impact of the COVID-19 pandemic disrupting customers' ability of loan repayment.

Liquidity & Funding The current liabilities of the Company stood at ~PKR 3,710mln at end-Jun'22, compared to ~PKR 4,134mln at end-Jun'21. The Company has adequate current assets to cover the current liabilities, standing at ~PKR 8,807mln at end-Jun'22 compared to ~PKR 6,754mln at end-Jun'21.

Capitalization The Company's equity consists of funding of ~PKR 2,519mln at end-Jun'22 compared with ~PKR 2,363mln at end-Jun'21.



THE PAKISTAN CREDIT RATING AGENCY
Rural Community Development Programmes
FINANCIAL SUMMARY
NBMFC
NON-PROFIT ORGANIZATION/SECTION 42

Jun-22	Jun-21	Jun-20
FY22	FY21	FY20
12M	12M	12M
Management	Audited	Audited

BALANCE SHEET

A ASSETS

1 MICROCREDIT - NET LOAN PORTFOLIO	6,635	4,515	4,217
2 INVESTMENTS	412	239	1,175
3 CASH	1,775	1,928	830
4 NON-CURRENT ASSETS	295	173	182
5 OTHER ASSETS	341	287	352
SUM OF ASSETS	9,457	7,143	6,756

B LIABILITIES

1 DEPOSITS	-	-	-
2 BORROWINGS	6,586	4,664	4,777
3 OTHER LIABILITIES	351	116	174
SUM OF LIABILITIES	6,937	4,780	4,951

C EQUITY/FUNDS

	2,520	2,363	1,981
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INCOME STATEMENT

D INCOME

1 MARK UP EARNED	2,338	1,794	1,929
2 MARK UP EXPENSED	(756)	(547)	(684)
FINANCIAL RETURNS	1,582	1,248	1,246
3 OTHER OPERATING INCOME	69	135	65
4 NON-OPERATING INCOME	53	34	21
TOTAL INCOME	1,704	1,417	1,332

E EXPENSE

1 OPERATING EXPENSE	(1,135)	(863)	(841)
2 PROVISIONS	(412)	(166)	(38)
TOTAL EXPENSE	(1,547)	(1,029)	(878)

F PROFIT/SURPLUS

1 PRE-TAX PROFIT/SURPLUS	157	387	454
2 TAX	-	-	-
PROFIT/SURPLUS	157	387	454

RATIOS

G SOCIO-ECONOMIC STATISTICS

1 Female Borrowers	96.6%	95.3%	93.0%
2 Rural Borrowers	64.9%	48.4%	N/A
3 Client Retention Rate	81.3%	75.0%	100.0%
4 National Loan Size Ratio	15.1%	14.8%	15.9%

H OPERATING ENVIRONMENT

1 Gross Loan Portfolio Market Share	1.6%	1.4%	1.5%
2 Sector Concentration	37.5%	37.4%	N/A
3 Geographic Concentration	23.4%	28.4%	N/A

I PERFORMANCE

1 Operational Self Sufficiency (OSS)	104.5%	122.4%	127.7%
2 Cost per Borrower	6,915.1	6,032.1	5,922.2
3 Portfolio Yield	35.9%	36.2%	39.6%
4 Minimum Lending Rate	32.8%	32.2%	31.7%
5 Return on Equity	6.4%	17.8%	26.0%

J ASSET QUALITY

1 PAR 30 Ratio	4.3%	11.3%	1.2%
2 Risk Coverage Ratio (PAR 30)	2.3	0.6	4.2
3 Write Off Ratio	6.7%	3.6%	1.2%
4 Top 20 Advances within GLP/Gross Loan Portfolio	N/A	N/A	N/A

K LIQUIDITY & FUNDING

1 Liquid Assets as a Percentage of Deposits & Short-term Borrowings	33.1%	46.3%	41.7%
2 Demand Deposit Coverage Ratio	N/A	N/A	N/A
3 Liquid Assets/Top 20 Depositors	N/A	N/A	N/A
4 Loan-to-Deposit Ratio	N/A	N/A	N/A

L CAPITALIZATION

1 Capital Adequacy Ratio (CAR)	40.6%	55.8%	21.6%
2 Debt to Equity	2.8	2.0	2.5

Social Impact and Performance Rating (SIP)

An independent opinion on the ability of an entity to create intended social impact and achieve sustainable performance.

Scale	Definition
SIP1	Very Strong. Very strong ability to create intended social impact and very high likelihood of sustaining performance.
SIP2++ SIP2+ SIP2	Strong. Strong ability to create intended social impact and high likelihood of sustaining performance.
SIP3++ SIP3+ SIP3	Adequate. Adequate ability to create intended social impact and adequate likelihood of sustaining performance.
SIP4++ SIP4+ SIP4	Inadequate. Inadequate ability to create intended social impact and low likelihood of sustaining performance.
SIP5	Weak. Weak ability to create intended social impact and very low likelihood of sustaining performance.

<p>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’.</p>	<p>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.</p>	<p>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.</p>	<p>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</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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(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

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(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)

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(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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