



The Pakistan Credit Rating Agency Limited

Rating Report

Rural Community Development Programmes

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Rating History table with columns: Dissemination Date, Rating, Outlook, Action, Rating Watch. Rows for 13-Dec-2023 and 13-Dec-2022.

Rating Rationale table with columns: Factor, Comment. Rows include Ownership/Members, Governance, Management, Social Impact, Business Sustainability, and Financial Sustainability.

Key Rating Drivers: The Rural Community Development Programme('RCDP' or the 'Company') was established with the primary objective of empowering impoverished communities by enhancing their livelihood opportunities through the provision of viable and suitable microfinance services.

Disclosure table with rows: Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, Rating Analysts.

## 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 a 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 RDCP 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 their 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 Non profit organizations.

**Board Effectiveness** Four board meetings were held during FY22. The quality of discussion as captured in meeting minutes reflects good involvement of the board members in business activities. This bodes well for the sustainability of the company. 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 Ilyas Saeed & Co. Chartered Accountants ( a member of MGI Worldwide) 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 actions on any items highlighted. Internal audit, compliance and risk departments also present their 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 'surprise' visits to branches to assess multiple risk and compliance parameters. The risk department targets higher-risk branches with greater frequency than the branches which are low-risk. 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 a software sourced from Generic Solutions which allows for real-time report generation. The software encompasses all relevant areas of the Company, and shows information such as NPLs, at-risk portfolio, 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 has branches throughout Punjab with 26 operational areas and close to ~150 operational branches. The Company has ~98% female borrowers and ~68% rural borrowers at end-Sep'23, showing their 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 microloans by the Company's customers. The rural population affected by the recent floods in the country may have trouble paying back their loans and thus it may affect the microfinance sector in the current year.

**Sustainability** The Company earned ~PKR 1,000mln in revenue during 1QFY24, , and ~PKR 3,384mln during FY23. The Company's revenue stems from loan service charges (Interest income), risk coverage fees, and loan processing fees. The top line is supported by profit earned on bank deposits amounting to ~PKR 25mln during 1QFY24.

**Strategy** RCDP is focusing towards technology integration to streamline their operations in the coming year. Furthermore, the Company has plans to convert the Company to a for-profit company in the near future, which will have major implications towards their business operations.

## Financial Sustainability

**Asset Quality** The Company has an Outstanding Loan Portfolio (OLP) amounting to ~PKR 7,813mln at end-Sep'23, which constitutes a market share of ~1.5% as per the OLP of microcredit institutions in the country.

**Liquidity & Funding** The current liabilities of the Company stood at ~PKR 3,257mln at end-Sep'23. On the other hand, the long-term liabilities stood at ~PKR 3,296mln at end-Sep'23. The increase in non-current liabilities is majorly due to the increase in the PMIC fund. The Company has adequate current assets to cover its current liabilities, standing at ~PKR 9,118mln at end-Sep'23. RCDP has significant liquidity risk at all times because they have to at all times manage their collections to stay ahead of their monthly and quarterly loan repayments.

**Capitalization** The Company's equity consists of funding of ~PKR 3,173mln at end-Sep'23. The current level of equity base is considered adequate, and it may be improved with a further injection or access to more donations/funding.

THE PAKISTAN CREDIT RATING AGENCY  
FINANCIAL SUMMARY  
NBMFC  
NON-PROFIT ORGANIZATION/SECTION 42



	Sep-23 FY24 3M Management	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited	PKR MLN Jun-21 FY21 12M Audited
<b>BALANCE SHEET</b>				
<b>A ASSETS</b>				
1 MICROCREDIT - NET LOAN PORTFOLIO	7,814	7,747	6,635	4,515
2 INVESTMENTS	400	400	412	239
3 CASH	896	424	1,775	1,928
4 NON-CURRENT ASSETS	309	313	295	173
5 OTHER ASSETS	309	323	341	287
<b>SUM OF ASSETS</b>	<b>9,728</b>	<b>9,207</b>	<b>9,457</b>	<b>7,143</b>
<b>B LIABILITIES</b>				
1 DEPOSITS	-	-	-	-
2 BORROWINGS	6,102	5,802	6,586	4,664
3 OTHER LIABILITIES	452	365	351	116
<b>SUM OF LIABILITIES</b>	<b>6,554</b>	<b>6,167</b>	<b>6,937</b>	<b>4,780</b>
<b>C EQUITY/FUNDS</b>				
	<b>3,174</b>	<b>3,040</b>	<b>2,520</b>	<b>2,363</b>
<b>INCOME STATEMENT</b>				
<b>D INCOME</b>				
1 MARK UP EARNED	1,020	3,505	2,338	1,794
2 MARK UP EXPENSED	(423)	(1,239)	(756)	(547)
<b>FINANCIAL RETURNS</b>	<b>597</b>	<b>2,266</b>	<b>1,582</b>	<b>1,248</b>
3 OTHER OPERATING INCOME	-	47	69	135
4 NON-OPERATING INCOME	7	60	53	34
<b>TOTAL INCOME</b>	<b>604</b>	<b>2,373</b>	<b>1,704</b>	<b>1,417</b>
<b>E EXPENSE</b>				
1 OPERATING EXPENSE	(467)	(1,624)	(1,135)	(863)
2 PROVISIONS	(4)	(274)	(412)	(166)
<b>TOTAL EXPENSE</b>	<b>(471)</b>	<b>(1,898)</b>	<b>(1,547)</b>	<b>(1,029)</b>
<b>F PROFIT/SURPLUS</b>				
1 PRE-TAX PROFIT/SURPLUS	133	475	157	387
2 TAX	-	-	-	-
<b>PROFIT/SURPLUS</b>	<b>133</b>	<b>475</b>	<b>157</b>	<b>387</b>
<b>RATIOS</b>				
<b>G SOCIO-ECONOMIC STATISTICS</b>				
1 Female Borrowers	98.1%	97.8%	96.6%	95.3%
2 Rural Borrowers	68.0%	68.0%	64.9%	48.4%
3 Client Retention Rate	95.4%	96.3%	81.3%	75.0%
<b>H PERFORMANCE</b>				
1 Operational Self Sufficiency (OSS)	114.2%	113.2%	104.5%	122.4%
2 Cost per Borrower	9,244	8,361	6,915	6,032
3 Portfolio Yield	48.9%	43.6%	35.9%	36.2%
4 Minimum Lending Rate	43.6%	37.6%	32.8%	32.2%
5 Return on Equity	17.2%	17.1%	6.4%	17.8%
<b>I ASSET QUALITY</b>				
1 PAR 30 Ratio	0.2%	0.2%	4.3%	11.3%
2 Risk Coverage Ratio (PAR 30)	20.7	31.3	2.3	0.6
3 Write Off Ratio	N/A	N/A	6.7%	3.6%
<b>J LIQUIDITY &amp; FUNDING</b>				
1 Liquid Assets as a Percentage of Deposits & Short-term Borrowings	21.2%	14.2%	33.1%	46.3%
2 Demand Deposit Coverage Ratio	N/A	N/A	N/A	N/A
3 Loan-to-Deposit Ratio	N/A	N/A	N/A	N/A
<b>K CAPITALIZATION</b>				
1 Capital Adequacy Ratio (CAR)	36.6%	35.7%	40.6%	55.8%
2 Debt to Equity	2.1	2.0	2.8	2.0

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	<b>Very Strong.</b> Very strong ability to create intended social impact and very high likelihood of sustaining performance.
SIP2++ SIP2+ SIP2	<b>Strong.</b> Strong ability to create intended social impact and high likelihood of sustaining performance.
SIP3++ SIP3+ SIP3	<b>Adequate.</b> Adequate ability to create intended social impact and adequate likelihood of sustaining performance.
SIP4++ SIP4+ SIP4	<b>Inadequate.</b> Inadequate ability to create intended social impact and low likelihood of sustaining performance.
SIP5	<b>Weak.</b> Weak ability to create intended social impact and very low likelihood of sustaining performance.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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- 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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