



The Pakistan Credit Rating Agency Limited

**Rating Report**

**CSC Empowerment & Inclusion Programme**

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	-

Factor	Comment
<b>Ownership/Members</b>	CEIP has three members, who have each given a guarantee of up to PKR 100,000 in case of a possibility of default.
<b>Governance</b>	The board of directors comprises six members including two independent directors, depicting a sound governance structure. Two board committees with independent representation are also present for added oversight.
<b>Management</b>	CEIP's management is qualified and experienced, and turnover at senior management level is low. The organizational structure is defined with adequate departmentalization in place.
<b>Social Impact</b>	CEIP has a publicly available mission statement which clearly outlines the target market and the manner in which CEIP intends to serve the market. A Social Performance Committee may be established at the board level to further oversee its mission of social empowerment.
<b>Business Sustainability</b>	As borrowing is the primary source of funding for CEIP, the markup expenses have increased (~46%) more than the markup income (~28%) during FY22 due to a surge in the benchmark rate. The increase in operating expenses has reduced the OSS ratio to ~104%, ultimately impacting the bottom line.
<b>Financial Sustainability</b>	The Company has a low equity base of ~PKR 384mln at end-Jun'22. The PAR 30 ratio has improved in FY22 compared to FY21; however, it is still on the higher side when compared with previous years.

**Key Rating Drivers**

CSC Empowerment and Inclusion Programme's ('CEIP' or the 'Company') goal is to provide microfinance to underprivileged households in Pakistan with an emphasis on financial inclusion and empowerment of women and the youth. CEIP approaches its clients to have success stories and clients' voices heard; however, CEIP may further add to this practice and compile the information gathered in the form of a social performance dashboard indicating the targets and achievements pertaining to social impact. A proper grievance redressal mechanism is in place with board-approved policy; however, the client grievance reports may be presented to the board at least annually. Going forward, the rating is dependent on management's ability to raise funds and enhancement of market share. CEIP's commitment to its social objective and action on the same will be important for the assigned rating.

Disclosure	
<b>Name of Rated Entity</b>	CSC Empowerment & Inclusion Programme
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Social Impact and Performance Rating
<b>Applicable Criteria</b>	Methodology   Social Impact and Performance Rating(Sep-22)
<b>Related Research</b>	Sector Study   Microfinance(Sep-22)
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## Profile

**Background** CSC Empowerment and Inclusion Programme ('CEIP' or 'the Company') is a public unlisted company not having share capital incorporated on 19 March 2015 under Section 42 of the repealed Companies Ordinance 1984. The roots of the Company lie in Consumer Support Concern (CSC), established in 1989.

**Scope Of Operations** The Company offers micro-credit and vocational training to the under-educated and under-banked community to help them towards financial independence. Currently, the Company operates from the Head Office based in Lahore and has around 35 branches located across Punjab.

## Ownership/Members

**Structure** The Company currently has three members at the helm as CEIP is a Company limited by guarantee not having a share capital. 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 a mix of diverse experiences through which to offer oversight for the Company. All members are experienced professionals having greater than 10 years of experience in their respective fields. Mrs. Amna Sharif, a founding member and the current chairman of the Board, is an executive of the treasury department at Telenor.

**Financial Strength** The sponsors' ability to raise capital through donations is key to the growth of CEIP. The members have had moderate success throughout the Company's history in raising funds through donations, and continued success in fundraising may be vital moving forward.

## Governance

**Board Structure** The Company's Board of Directors (BoD) comprises six members, which include two independent directors, three non-executive directors and one executive director. The executive director is the CEO, Mrs. Shaista Khalid Jan

**Board Profile** Through extensive experience, the directors are a source of keen insights for CEIP. The Board has a diverse experience in different industries including banking, medical, telecommunications and Non-profit organizations.

**Board Effectiveness** Four board meetings were held during FY22. The Company has formed two committees at the Board level – 1) Audit Committee and 2) Human Resources Committee. The Audit Committee and the HR Committee are both chaired by an independent director, strengthening the governance oversight.

**Transparency** The Company has appointed M/s Munif, Ziauddin and Company Chartered Accountants as the external auditors. They have expressed an unqualified opinion on the financial statements for FY22. The firm is 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 & Compliance, (ii) Operations, (iii) Finance (iv) Internal Audit, (v) IT, (vi) Communication and Research, (vii) HR, and (viii) Administration.

**Management Team** The Company has a qualified and experienced management team in place to ensure streamlined operations. The management team is headed by Mrs. Shaista Khan Jan (CEO). Mrs. Shaista has been at the helm of the Company since its inception and has grown the Company to encompass Central and Southern Punjab. Mr. Jawad Yousuf, the CFO, has been with CEIP since 2006 and has been responsible for the transformation of the Company from an NPO to a registered company with an NBFC license.

**Management Effectiveness** The Company's management including the CEO has a practice of conducting monthly review meetings in order to assess CEIP's performance and take action on any items highlighted. The involvement of the management is clear to see in the operations; however, the absence of management committees and no minutes maintained for the monthly management meetings are issues which may be improved upon.

**Risk Management Framework** The Company has a Risk Management and Compliance department which performs regular visits to branches to assess multiple risk parameters. There is also a Risk Management Committee at the board level to provide governance and oversight, whereas a documented risk management manual is also in place. The Company also has an internal audit department for a better control framework.

**Technology Infrastructure** CEIP has tailor-made 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 information.

## Social Impact

**Social Performance Management System** CEIP's mission statement is targeted towards women's empowerment with clearly defined financial and non-financial goals. The Company has an environmental safety management policy in place, which details the need, purpose and procedures that the Company will undertake to protect the environment and have a positive impact on society. The MIS may be enhanced to include social performance parameters, while a social performance management committee may also be considered. Further, the preparation of a social performance dashboard will enhance the management system.

**Client Protection & Social Responsibility** CEIP ensures that transparency is present in all dealings with the customers. Customers are presented with their rights and obligations at the time of onboarding, while a grievance mechanism is in place to address any customer grievances. Regular presentation of a summarized grievance report to the board for their review may be considered going forward.

**Outreach** The Company has branches throughout Punjab, having recently expanded its reach in Southern Punjab. CEIP has a focus towards women empowerment, which shows in the client mix-up which comprises ~91% female borrowers at end-Jun'22. The Company has a balanced mix of the urban and rural population, with rural borrowers making up ~53% of total borrowers at end-Jun'22.

**Quality Of Services** There is one major product offering of the Company – microfinance. This is then broken up into multiple products which have different limits and target different aspects with products ranging from agriculture finance to livestock finance and home improvement loans.

## 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, CEIP'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 608mln in revenue during FY22, as compared to ~PKR 463mln during FY21. The Company earned a net surplus of ~PKR 11mln during FY22 as compared to ~PKR 17mln during FY21. The growth in the topline is due to expansion in the branch network; however, the Company may look into managing its expenses to translate the effect to the bottom line.

**Strategy** The Company has plans to keep growing organically and expanding outreach in Punjab for now, and to other provinces in the future. CEIP is in negotiations with PMIC to increase the funding to allow them to boost CEIP's growth in the near future.

## Financial Sustainability

**Asset Quality** The Company manages credit risk through the operations manual which has specific per-product maximum limits assigned. The Company has a provision for NPLs amounting to ~PKR 93mln at end-Jun'22, while CEIP wrote off ~PKR 118mln during the year against the provision. The write-offs consisted of mainly loans disbursed during the COVID-19 pandemic. CEIP's PAR30 ratio stood at ~4.1% at end-Jun'22, depicting a considerable portfolio-at-risk.

**Liquidity & Funding** The current liabilities of the Company stood at ~PKR 702mln at end-Jun'22, significantly decreasing from ~PKR 1,355mln at end-Jun'21. The Company has adequate current assets to cover the current liabilities, standing at ~PKR 2,212mln at end-Jun'22 compared to ~PKR 2,083mln at end-Jun'21.

**Capitalization** The Company's equity consists of funding of ~PKR 384mln at end-Jun'22 compared with ~PKR 373mln at end-Jun'21. The current level of equity base is considered low, and it may be improved with a further injection or access to more donations/funding.



THE PAKISTAN CREDIT RATING AGENCY  
CSC Empowerment & Inclusion Programme  
FINANCIAL SUMMARY  
NBMFC  
NON-PROFIT ORGANIZATION/SECTION 42

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

**BALANCE SHEET**

**A ASSETS**

1 MICROCREDIT - NET LOAN PORTFOLIO	1,873	1,512	1,403
2 INVESTMENTS	67	66	41
3 CASH	294	498	308
4 NON-CURRENT ASSETS	84	66	78
5 OTHER ASSETS	40	36	48
<b>SUM OF ASSETS</b>	<b>2,357</b>	<b>2,178</b>	<b>1,878</b>

**B LIABILITIES**

1 DEPOSITS	-	-	-
2 BORROWINGS	1,890	1,753	1,457
3 OTHER LIABILITIES	83	51	65
<b>SUM OF LIABILITIES</b>	<b>1,972</b>	<b>1,805</b>	<b>1,522</b>

**C EQUITY/FUNDS**

<b>384</b>	<b>373</b>	<b>357</b>
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**INCOME STATEMENT**

**D INCOME**

1 MARK UP EARNED	550	429	490
2 MARK UP EXPENSED	(228)	(156)	(245)
<b>FINANCIAL RETURNS</b>	<b>322</b>	<b>273</b>	<b>244</b>
3 OTHER OPERATING INCOME	92	61	60
4 NON-OPERATING INCOME	(16)	(14)	(14)
<b>TOTAL INCOME</b>	<b>398</b>	<b>320</b>	<b>291</b>

**E EXPENSE**

1 OPERATING EXPENSE	(294)	(251)	(237)
2 PROVISIONS	(93)	(52)	(24)
<b>TOTAL EXPENSE</b>	<b>(388)</b>	<b>(303)</b>	<b>(261)</b>

**F PROFIT/SURPLUS**

1 PRE-TAX PROFIT/SURPLUS	11	17	29
2 TAX	-	-	-
<b>PROFIT/SURPLUS</b>	<b>11</b>	<b>17</b>	<b>29</b>

**RATIOS**

**G SOCIO-ECONOMIC STATISTICS**

1 Female Borrowers	90.7%	76.2%	N/A
2 Rural Borrowers	53.3%	40.5%	N/A
3 Client Retention Rate	82.3%	85.9%	N/A
4 National Loan Size Ratio	17.5%	20.3%	24.8%

**H OPERATING ENVIRONMENT**

1 Gross Loan Portfolio Market Share	0.4%	0.5%	0.5%
2 Sector Concentration	32.4%	24.7%	N/A
3 Geographic Concentration	73.0%	81.3%	N/A

**I PERFORMANCE**

1 Operational Self Sufficiency (OSS)	104.3%	106.7%	108.4%
2 Cost per Borrower	7,546.2	7,588.2	7,773.6
3 Portfolio Yield	33.7%	29.7%	35.9%
4 Minimum Lending Rate	34.1%	29.4%	36.1%
5 Return on Equity	2.9%	4.5%	8.6%

**J ASSET QUALITY**

1 PAR 30 Ratio	4.1%	11.6%	4.5%
2 Risk Coverage Ratio (PAR 30)	1.2	0.7	1.3
3 Write Off Ratio	5.2%	3.3%	1.7%
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	16.0%	29.2%	22.0%
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)	35.0%	35.4%	40.2%
2 Debt to Equity	5.1	4.8	4.3

**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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(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)

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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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(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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