The Pakistan Credit Rating Agency Limited

Rating Report

Parwaaz Financial Services Limited

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Sep-2024	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Parwaaz Financial Services Ltd (hereinafter referred to as "PFSL" or "the Company") is a wholly owned subsidiary of Karandaaz Pakistan Ltd (KRN), KRN is a notable not-for-profit company formed under section 42 of the Companies Act 2017, it functions as an implementation partner for various programs of the Foreign, Commonwealth & Development Office (FCDO), UK, and Bill and Melinda Gates Foundation, PFSL intends to develop a distinctive indigenous portfolio while also acting as an agent for KRN on its certain identified initiatives for SMEs. PFSL provides bespoke financing solutions to cater to the credit needs of Small and Medium Enterprises (SMEs) with a focus on the industrial and Agri value chains, renewable energy, health, and education segments. Currently, PFSL's indigenous portfolio constitutes ~67% of deployed advances whereas ~33% is contributed by the funding disbursed on behalf of KRN. The board of PFSL has an independent oversight function and is comprised of experienced and technical personnel. The board exercises control through formal committees. The operations of the company are augmented by a team of professionals and industry specialists. The company has implemented a comprehensive risk management policy that includes risk assessment and mitigation mechanisms augmented by an internally developed Obligor Risk Rating Model to maintain sound asset quality. Thus, the assigned ratings reflect the strong ownership emanating from the presence of KRN, a well-defined governance structure complimented by an experienced management team, and supported by the presence of a strong risk management framework. An estimated 5.2mln SMEs are operating in the formal and informal segments across the country, As per the statistics published by SBP, as of Dec-23, outstanding loans to the SMEs were recorded at PKR 542.5bln, extended to ~172,300 active borrowers. reflecting a significant gap in the SME financing sector. PFSL is well-aligned to establish itself as a key player in the industry considering that the Company has amassed a loan portfolio of ~PKR 2,575mln and the asset quality is currently good. The Company has managed to develop a customer base comprising ~64 entities emerging from multiple sectors. PFSL is currently reliant on the equity of ~PKR 1.5bln and a concessional loan of PKR 1.5bln from the parent to fund its finance needs. Going forward, PFSL projects a sizeable growth in its loan portfolio. The Company intends to explore various alternate financing avenues to fund its growing capital needs, the materialization of which will be instrumental in paving the way for achieving sustainable growth for the Company. Moving forward, Equity augmentation is expected as per the desired plan. Additionally, PFSL is working on the end-to-end digitization of its loan disbursement process which will enhance its reach and improve customers' experience by reducing turnaround time.

The ratings are contingent on the Company's ability to materialize the envisaged strategy for the growth of its footprint and loan portfolio while ensuring a stable profitability matrix. Moreover, prudent risk management, sustainability of a healthy asset base, and conversion of the subordinated loan into equity and mutually agreed financial discipline will remain imperative to the ratings.

Disclosure	
Name of Rated Entity	Parwaaz Financial Services Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Non-Banking Finance Companies Rating(Jun-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study | Non-Banking Finance Companies(Apr-24)
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Profile

Structure Parwaaz Financial Services Ltd ("PFSL" or "the Company") was incorporated on December 23rd, 2020 under the Companies Act 2017. The Company obtained the license to carry out Investment Finance Services as a Non-Banking Finance Company under the Non-Banking Finance Companies (Establishment and Regulation) Rules 2003 (NBFC Rules) and Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations) on June 22nd, 2021.

Background PFSL is a wholly owned subsidiary of Karandaaz Pakistan, incorporated with a vision to provide financing solutions to foster the growth and financial inclusion of Small and Medium Enterprises.

Operations The Company started its operations in 2022. PFSL is engaged in providing short-term and long-term credit facilities to SMEs in various sectors including Agri and Industrial value chains, health, education, and renewable energy. The company is also engaged in financing SMEs through programs originated and managed by Karandaaz Pakistan, as its agent. As of 30th June 2024, the Company's Gross Loan Portfolio was recorded at PKR 2,575mln comprising 64 customers.

Ownership

Ownership Structure The company is a wholly owned subsidiary of Karandaaz Pakistan Ltd (KRN) which holds 99.99% of the stake in PFSL while the remaining minority shareholding rests with individuals.

Stability The ownership structure of the company is deemed stable as no major changes are expected in the near future considering that the prime stake rests with the parent entity, which has been operating since 2014.

Business Acumen The sponsoring company is engaged in the related industry for over a decade with significant investments in corporates across multiple sectors. The sponsors' robust business profile and relevant exposure indicate strong business acumen.

Financial Strength The sponsoring company had an asset base of ~PKR 33bln with no leveraging as of June-23. KRN has strategic investments in multiple entities. Additionally, The presence of Foreign Commonwealth & Development Office, UK (FCDO) and Bill and Melinda Gates Foundation (BMGF) as the founding partners of the sponsors further augments the financial strength of the sponsors.

Governance

Board Structure The board comprises seven members. Two are independent directors including the Chairman, four are nominee directors including a female director, while one is executive director (the CEO).

Members' Profile The board members are seasoned professionals having extensive experience in the related fields. Notably, Mr. Nouman Ansari (the Chairman) has over three decades of experience in credit, corporate, and investment banking. The independent directors are also well regarded professionals having extensive experience and exposure in the related industry.

Board Effectiveness The board exercises control through 4 committees including Human Resource Committee, Risk Management Committee, Information Technology Committee, and Audit Committee. The establishment of these committees adds to the board's effectiveness to steer overall direction of the company.

Financial Transparency The external auditors of the company, A. F. Ferguson & Co. are among the Big-4 and are listed in the category-A on the SBP's panel of auditors. They have expressed an unqualified opinion on the company's financial statements for the year ended Dec-2023.

Management

Organizational Structure The company has a well defined organizational structure comprising six functional departments; (i) Business (ii) Risk & Compliance (iii) IT (iv) HR & Admin (v) Finance & Secretarial and (vi) Digital Services. All the functional heads report directly to the CEO. Within each department, the management hierarchy includes various cadres which enables the Company to carry out smooth operations. All the key positions have been filled.

Management Team The management team of the company comprises qualified and experienced professionals possessing diverse experience in respective domains. Mr. Javed Iqbal (the CEO) possesses over 3 decades of experience in the areas of Investment, Corporate, Commercial and SME Banking. He is accompanied by a team of industry professionals.

Effectiveness PFSL has established 3 management committees. These committees along with clearly defined roles and responsibilities within the organizational structure enhance efficiency of operational decision making by bridging inter-departmental gaps and ensure alignment with strategic objectives.

MIS The company has an in-house MIS named Cascade, which is being utilized for the digitization of Loan origination and Management System.

Risk Management Framework A comprehensive risk management policy is in place which is approved by the board. Currently, the company is relying on an internally developed Obligor Risk Rating Model which has a clearly defined risk based industry segregation in addition to other qualitative and quantitative assessment criteria. Furthermore, it is suggested that the ORR Model should be reviewed by a third party which can further enhance its efficacy and transparency.

Business Risk

Industry Dynamics The business environment in the country remained challenging, and measures taken by the Government towards economic stabilization have impacted overall business sentiments. Investment finance companies continue to face stiff competition from banks. However, there exists a vacuum in the SME financing market. An estimated 5.2mln SMEs are operating across the country in the formal and informal sector comprising about 90% of the exclusive private businesses. The sector provides employment to 30% of the workforce and contributes ~40% to the annual GDP. As of Dec-23, outstanding loans to the SMEs were recorded at PKR 542.5bln extended to ~172,300 active borrowers.

Relative Position PFSL is a relatively new player in the market. The Company is well abreast with the requisite skill set and has adopted risk mitigation strategies to perform promptly. In a brief span of ~2 years, PFSL has developed a considerable loan portfolio of over PKR 2.5bln with negligible NPLs indicating the company's growing presence in the related market.

Revenues PFSL's revenue grew by ~188% during CY23 and was recorded at PKR 674mln (CY22, PKR 234mln). Markup on Advances contributed ~27% to the total income. During 1QCY24, the Company recorded a revenue of PKR 179mln where markup on advances contributed ~46% to the income on the back of increased loan portfolio of the company.

Performance The company's PAT grew by ~19% during CY23 and was recorded at PKR 87mln (CY22, 73mln). Owing to inflation and expansion in human resources, the company's personnel cost increased by ~66% and was reported at PKR 138mln (CY22, PKR 83mln). The company has availed funding from the parent at concessional rate which has helped in sustaining adequate earnings.

Sustainability PFSL's future business plan depicts sustainable business growth by leveraging sufficient funding sources with a cautious approach towards future lending to keep the asset quality intact. Moreover, the company is in the process of introducing digital services that will enhance the accessibility of the customers by digitizing the end-to-end process.

Financial Risk

Credit Risk PFSL has devised an in-depth credit management policy with guidelines on restricting group and sector exposures. The company has a dedicated risk management function in place which evaluates the creditworthiness of the potential customers, and ensures that all the necessary documentation and securities are in place in line with the credit extension policy of the company.

Market Risk The company is exposed to market risk mainly in the form of movement in interest rates affecting its debt obligations and loan receivables. PFSL competes with the FIs and banks in the SME financing space which exposes it to the risk of competitive price dynamics with respect to customer acquisition and retention.

Liquidity And Funding The main source of funding for the company remained the equity and the subordinate loan from the parent company at below commercial rate. (KIBOR-2%). This reduced the finance costs of the company and helped in attaining profitability. However, going forward, availability of funding at favorable rates will be imperative for sustainable growth and profitability of the company.

Capitalization Currently, the equity of the company stood at PKR 1,789mln as of Mar'24. Equity to total Assets of the company remained at ~46.1%. Such a stable capital structure provides support to the company. The company has a debt to equity ratio of 1.1 as of Mar'24.

Parwaaz Financial Services Limited
Unlisted Public Limited

	Mar-24	Dec-23	Dec-22	Dec-21
	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	2,024	1,843	787	-
2 Investments	1,680	1,645	608	-
3 Other Earning Assets	15	234	1,955	1,549
4 Non-Earning Assets	211	145	39	9
5 Non-Performing Finances-net	(45)	(43)	(9)	-
Total Assets	3,884	3,824	3,379	1,557
6 Funding	1,963	1,947	1,629	-
7 Other Liabilities	132	108	67	15
Total Liabilities	2,095	2,055	1,697	15
Equity	1,789	1,769	1,682	1,542
B INCOME STATEMENT				
1 Mark Up Earned	179	674	234	96
2 Mark Up Expensed	(78)	(299)	(1)	(0)
3 Non Mark Up Income	-	-	-	-
Total Income	101	375	233	96
4 Non-Mark Up Expenses	(69)	(215)	(119)	(36)
5 Provisions/Write offs/Reversals	(2)	(34)	(10)	-
Pre-Tax Profit	30	127	105	60
6 Taxes	(10)	(40)	(32)	(18)
Profit After Tax	20	87	73	42
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	68.4%	57.2%	51.0%	37.9%
b ROE	4.5%	5.0%	4.5%	2.7%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	100.8%	92.5%	47.7%	N/A
b Accumulated Provisions / Non-Performing Advances	0.0%	0.0%	0.0%	N/A
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	86.3%	96.5%	157.3%	N/A
b Borrowings from Banks and Other Financial Institutes / Funding	0.0%	0.0%	0.0%	N/A
4 MARKET RISK				
a Investments / Equity	93.9%	93.0%	36.1%	0.0%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	46.1%	46.3%	49.8%	99.0%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	4.6%	5.2%	4.7%	N/A

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.

Scale	Long-term Rating
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.

Scale	Short-term Rating
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Rating Modifiers | Rating Actions

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. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

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

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 | 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)

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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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