The Pakistan Credit Rating Agency Limited

Rating Report

JWS Pakistan

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Mar-2023	BBB	A3	Stable	Maintain	-
28-Mar-2022	BBB	A3	Stable	Upgrade	-
14-Sep-2021	BBB-	A3	Positive	Maintain	Yes
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 operation since 2015. The key element is that MFIs are not permitted to mobilize deposits, and they are also not backed by any stakeholder equity due to their status as "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.

Over recent years, the Institution has sizably enhanced GLP which lead to improved markup earned, resultantly net markup income also reflected an increase. Total income witnessed an upsurge to PKR 1,103mln during FY22 (FY21: PKR 645mln). Despite higher provisioning expenses, net profitability improved manifolds, and during FY22 net profit augmented to PKR 126mln (FY21: PKR 74mln). The Institution overcame the recent increase in non-performing loans due to the expiration of SBP’s deferment scheme period, attributable to efficient fieldwork which resulted in 100% cumulative recovery. Hereby, the infection ratio remains one of the lowest in the industry. Sustained asset quality will remain an important factor in the future. The Institution majorly relies on local avenues for borrowings, primarily PMIC. The funding base strengthened, during last year, attributable to foreign funding which shall fuel growth in upcoming years. The institution's cost of funds remained under control. The ratings also incorporate the vulnerability in business due to low market share and limited geographical presence. Room for growth in the technological domain exists.
Furthermore, the Institution has added more branches where the cumulative number has surpassed 110. The ratings are dependent on the Institution's aptness to sustain positive performance indicators amidst growth in business volumes. Ratings will monitor expansion and the impact of technological progress on the operational and risk efficacy of the Institution.

Disclosure

Name of Rated Entity	JWS Pakistan
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Microfinance Institution Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Microfinance(Sep-22)
Rating Analysts	Sehar Fatima | sehar.fatima@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 110 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 experience in financial services. Ms. Sabiha Shaheen, the Chairperson of the Board, has a Master's Degree in Philosophy from Punjab University. With 24 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. There are six sub-committees of the board, namely (i) Audit Committee, (ii) Procurement Committee (iii) HR Committee (iv) Asset Disposal Committee (v) Grievance Committee, and (vi) Risk Committee. Quarterly meetings of the committees are also conducted.

Transparency Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants, a QCR rated firm (Category A as per SBP Panel), expressed an unqualified opinion on the financial statements for the year ended June'22. An internal audit department is in place, which reports to the audit committee on a quarterly basis.

Management

Organizational Structure The organizational structure is simple and effective. There are six functional departments housed in the Head Office. The overall Institution structure includes branches reporting to the area and regional offices which ultimately report to the Head Office.

Management Team Mr. Qazi Shoaib Alam Farooqi, the CEO and Founding Member, has an experience of almost three 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 the 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 transparency in business processes. Further room for enhancement in the 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 a strong technology infrastructure to sustain their market share. The Institution is continuously investing to increase automation in the processes. It is currently working to integrate its processes so real-time access to all outstanding balances and receipts is available. Room for improvement and growth exists in this domain.

Business Risk

Industry Dynamics Pakistan Microfinance Industry (MFI) comprises 50 microfinance providers including 30 microfinance institutions (MFIs). Active Borrowers continued the increasing trend as 8.5 million borrowers were achieved during CY22, an increase of 5.6% compared to CY21. Similarly, the GLP surpassed PKR 448bln during CY22, an increase of 26.1% compared to the GLP in CY21. The further analysis explains the major contribution to the growth of active borrowers and GLP was contributed by the MFB peer group where Mobilink MFB was at the top of the list due to the significant adoption of digital credit and greater outreach to the customer base. NBMFCs peer group also contributed to the increase by adding 94,000 active borrowers and PKR 2.6bln in GLP. In the case of MFBs, PAR > 30 days slightly increased to 5.3% (CY21: 5.2%). However, the PAR > 30 days of MFIs recovered to report at 4.1% in CY22 (CY21: 5.5%).

Relative Position Considering the market share of ~1% in terms of the Gross Loan Portfolio of the whole industry, the Institution is considered a small-tier player in the Microfinance sector.

Revenue JWSP earned a gross interest income of PKR 1,381mln during FY22, showcasing a growth of 59% from the corresponding period (FY21: PKR 866mln). Net markup income increased by 59% to PKR 945mln (FY21: PKR 595mln). Markup expenses increased to PKR 436mln (FY21: PKR 272mln).

Profitability During FY22, earning assets reflected 92% of the total asset base (FY21: 95%). Bottom-line recorded noticeable growth clocking in at PKR 126mln during FY22 (FY21: PKR 74mln), reflecting a good increase, supported by the non-mark-up income of PKR 158mln (FY21: PKR 50mln). Non-mark-up expenses of the institution have also recorded a sizable increase to PKR 853mln (FY21: PKR 495mln). The specific provisioning expense was recorded at PKR 141mln (FY21: PKR 82mln).

Sustainability In the medium-term horizon (5 years), the Institution plans to become a 'For Profit' Entity, while the ultimate goal is the incorporation as a Microfinance Bank. There is a plan to start the use of tablets in client dealing, in a move towards digitalization. While the JWS has a nationwide operating license, the plan of the Institution is to expand in the province of Punjab, as opposed to other areas where penetration is considered more challenging. Cities like Sargodha and Jhang are marked for imminent expansion.

Financial Risk

Credit Risk The GLP clocked in at PKR 4,393mln as of end-June'22 (PKR 2,674mln in FY21 – a growth of 64%). With the growth in the overall micro-credit loan portfolio, the Institution witnessed a decrease in non-performing loans. The NPLs clocked in at PKR 8mln (FY21: PKR 39mln), indicating a decrease of almost 79%. The infection ratio decreased to 0.2% (FY21: 1.4%).

Market Risk The investment book of JWS comprises short-term investments. These represent investments in term deposits placed with various financial institutions and have been classified as 'financial assets at fair value through profit or loss, amounting to PKR 188mln as of end-Jun22.

Funding The funding comprises a long-term loan from PMIC, The Bank of Punjab, Symbiotics SA, and Allied Bank Limited. The debt as of end-Jun22 was recorded at PKR 4,141mln (FY21: PKR 2,613mln). About 39% of the debt is part of the current maturity of long-term finances, presented under current liabilities

Cashflows & Coverages During FY22, the liquidity ratio (Liquid Assets/Borrowings) decreased to 19.4% as compared to 29.5% in FY21. However, the liquidity position slightly improved as the quantum of liquid assets inched up by 4% to PKR 804mln (FY21: PKR 772mln).

Capital Adequacy SECP has no minimum requirement for MFIs, unlike SBP which requires MFBs to maintain CAR at 15%. Apart from any regulatory requirement to meet minimum ratios the Institution has to satisfy the covenants of loans. It is necessary for the Institution to comply with those covenants. The equity of the institution comprised of reserves has improved to PKR 911mln (end-Jun21: PKR 785mln).

PKR mln

JWS Pakistan Public Limited	Jun-22	Jun-21	Jun-20	Jun-19
	12M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	4,393	2,674	1,941	2,145
2 Investments	188	132	-	113
3 Other Earning Assets	585	621	1,029	406
4 Non-Earning Assets	432	275	205	139
5 Non-Performing Finances-net	(212)	(97)	(85)	(78)
Total Assets	5,386	3,605	3,090	2,725
6 Deposits	-	-	-	-
7 Borrowings	4,141	2,613	2,170	1,906
8 Other Liabilities (Non-Interest Bearing)	334	207	205	131
Total Liabilities	4,475	2,821	2,375	2,036
Total Liabilities	911	785	716	688
B INCOME STATEMENT				
1 Mark Up Earned	1,381	866	745	712
2 Mark Up Expensed	(436)	(272)	(360)	(244)
3 Non Mark Up Income	158	50	124	138
Total Income	1,103	645	508	605
4 Non-Mark Up Expenses	(853)	(495)	(458)	(404)
5 Provisions/Write offs/Reversals	(124)	(75)	(23)	(21)
Pre-Tax Profit	126	75	27	180
6 Taxes	-	(1)	-	-
Profit After Tax	126	74	27	180
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	21.0%	17.8%	13.2%	19.0%
Non-Mark Up Expenses / Total Income	77.3%	76.7%	90.1%	66.8%
ROE	14.8%	9.8%	3.9%	30.1%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	16.9%	21.8%	23.2%	25.3%
Capital Adequacy Ratio	N/A	N/A	N/A	N/A
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	19.4%	29.5%	49.3%	28.0%
(Advances + Net Non-Performing Advances) / Deposits	N/A	N/A	N/A	N/A
Demand Deposits / Deposits	N/A	N/A	N/A	N/A
SA Deposits / Deposits	N/A	N/A	N/A	N/A
4 Credit Risk				
Non-Performing Advances / Gross Advances	0.2%	1.4%	0.7%	1.4%
Non-Performing Finances-net / Equity	-23.3%	-12.4%	-11.8%	-11.3%

Credit Rating

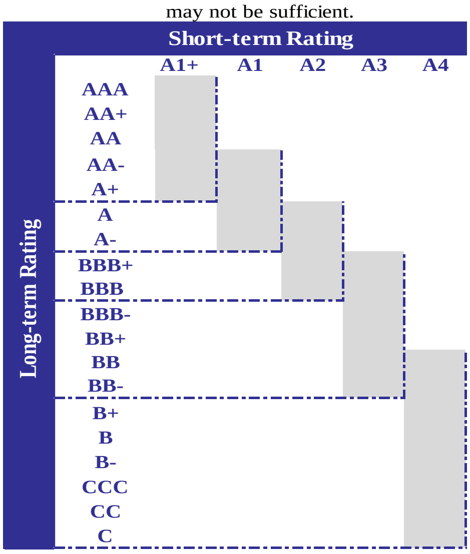
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

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 | 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 | 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