



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 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 CSC Empowerment & Inclusion Programme ('CEIP' or the 'Company') aims to provide microfinance services to underprivileged households in Pakistan, focusing particularly on financial inclusion, empowering women, and supporting the youth.

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 CEIP is a Company limited by guarantee not having share capital. 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 a mix of diverse experience 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 of six members, which includes two independent directors, three non-executive directors and one executive director. The executive director is the CEO, Mrs. Shaista Khalid Jan

Board Profile Through their extensive experience, the directors are a source of keen insights for CEIP. 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 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 the 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 a 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 their reach in Southern Punjab. CEIP has a focus towards women empowerment, which shows in their client mix-up which comprises of ~98% female borrowers at end-Sep'23. The Company has a balanced mix of urban and rural population, with rural borrowers making up ~52% of their total borrowers at end-Sep'23.

Quality Of Services There is one major product offering of the Company – micro finance. 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 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 200mln in revenue during the 1QFY24, and ~PKR 766mln during FY23. The Company earned net surplus of ~PKR 2mln during 1QFY24 and ~PKR 66mln during FY23. 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 their outreach in Punjab for now, and to other provinces in the future. CEIP is in negotiations with PMIC to increase their funding to allow them to boost their growth in the near future.

Financial Sustainability

Asset Quality The Company manages their credit risk through their operations manual which has specific per product maximum limits assigned. The Company has a provision for NPLs amounting to ~PKR 84mln at end-Sep'23, while they wrote off against death cases ~PKR 1.3mln during the quarter against their provision.

Liquidity & Funding The current liabilities of the Company stood at ~PKR 993mln at end-Sep'23. The Company has adequate current assets to cover its current liabilities, standing at ~PKR 1,981mln at end-Sep'23.

Capitalization The Company's equity consists of funding of ~PKR 453mln at end-Sep'23, and during FY23 funding base stood at ~PKR 451mln. The current level of equity base is considered adequate, and it may be improved with 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
BALANCE SHEET				
A ASSETS				
1 MICROCREDIT - NET LOAN PORTFOLIO	1,685	1,741	1,873	1,512
2 INVESTMENTS	17	55	67	66
3 CASH	259	202	294	498
4 NON-CURRENT ASSETS	74	72	84	66
5 OTHER ASSETS	64	46	40	36
SUM OF ASSETS	2,099	2,116	2,357	2,178
B LIABILITIES				
1 DEPOSITS	-	-	-	-
2 BORROWINGS	1,546	1,561	1,890	1,753
3 OTHER LIABILITIES	101	105	83	51
SUM OF LIABILITIES	1,646	1,666	1,972	1,805
C EQUITY/FUNDS				
	453	451	384	373
INCOME STATEMENT				
D INCOME				
1 MARK UP EARNED	184	713	550	429
2 MARK UP EXPENSED	(98)	(357)	(228)	(156)
FINANCIAL RETURNS	87	356	322	273
3 OTHER OPERATING INCOME	27	100	92	61
4 NON-OPERATING INCOME	5	14	(16)	(14)
TOTAL INCOME	119	470	398	320
E EXPENSE				
1 OPERATING EXPENSE	(118)	(385)	(294)	(251)
2 PROVISIONS	1	(18)	(93)	(52)
TOTAL EXPENSE	(117)	(404)	(388)	(303)
F PROFIT/SURPLUS				
1 PRE-TAX PROFIT/SURPLUS	2	66	11	17
2 TAX	-	-	-	-
PROFIT/SURPLUS	2	66	11	17
RATIOS				
G SOCIO-ECONOMIC STATISTICS				
1 Female Borrowers	98.6%	98.3%	90.7%	76.2%
2 Rural Borrowers	51.7%	51.8%	53.3%	40.5%
3 Client Retention Rate	87.0%	83.1%	82.3%	85.9%
H PERFORMANCE				
1 Operational Self Sufficiency (OSS)	98.5%	106.8%	104.3%	106.7%
2 Cost per Borrower	11,263	9,038	7,546	7,588
3 Portfolio Yield	45.1%	40.9%	33.7%	29.7%
4 Minimum Lending Rate	48.4%	40.6%	34.1%	29.4%
5 Return on Equity	2.0%	15.9%	2.9%	4.5%
I ASSET QUALITY				
1 PAR 30 Ratio	4.9%	1.4%	4.1%	11.6%
2 Risk Coverage Ratio (PAR 30)	1.0	1.3	1.2	0.7
3 Write Off Ratio	N/A	N/A	5.2%	3.3%
J LIQUIDITY & FUNDING				
1 Liquid Assets as a Percentage of Deposits & Short-term Borrowings	17.3%	13.4%	16.0%	29.2%
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
K CAPITALIZATION				
1 Capital Adequacy Ratio (CAR)	48.2%	48.9%	35.0%	35.4%
2 Debt to Equity	3.6	3.7	5.1	4.8

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.

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) 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

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent