



The Pakistan Credit Rating Agency Limited

Rating Report

Rural Community Development Programmes

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2024	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Rural Community Development Programmes ('RCDP' or the 'Company') has clear goals of serving the under-banked population through women empowerment and poverty alleviation, having ~98% women and ~68% rural borrowers at end-Sep'23. Despite challenging macro-economic conditions prevailing for the microfinance industry over the last three years, RCDP continued to organically grow its OLP and maintain its profitability. The Company is focusing on improving its technological infrastructure to have a stronger internal control environment. The ratings take into account strong governance supported by eight directors including three independent directors. Board committees chaired by independent directors further add strength to the oversight framework. The Company has a well established functional organizational structure with all departmental heads reporting to the CEO. The ratings take comfort from an experienced and qualified management team. Separate departments exist for Risk Management, Compliance, and Internal Audit, strengthening the internal control environment. As a result of its expansion, the Company's OLP has surged past the ~PKR 8.6bln mark during 1HFY24; moreover, effective portfolio management has kept NPLs low at ~0.2% during the period. The ratings take into account the Company's reliance on availability of funds from financial institutions, having a ~68% leveraging ratio at end-Dec'23. On the other hand, liquidity risk is managed through internal cash generation and liquidity management policies, providing comfort to the ratings. During 1HFY24, the Company earned ~PKR 2bln markup income (FY23: ~PKR 3.3bln); however, high policy rates during the period translated to a surge in finance costs, decreasing net margin by ~2.4% to ~11.6% during 1HFY24 (FY23: ~14%). As a result, RCDP earned a net profit of ~PKR 239mln during 1HFY24 (FY23: ~PKR 475mln). RCDP has an adequate equity base of ~PKR 3.3bln at end-Dec'23, while the Company's sustained market share of ~1.6% is well noted.

Moving forward, it is imperative from a ratings perspective to continue effective management of the Company's liquidity. Moreover, materialization of planned business strategies to enhance topline diversification remain vital. Meanwhile, growth and diversification of the topline is critical.

Disclosure

Name of Rated Entity	Rural Community Development Programmes
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Microfinance Institution Rating(Oct-23),Methodology Rating Modifiers(Apr-24)
Related Research	Sector Study Microfinance(Sep-23)
Rating Analysts	Hassaan Ahmad Hassaan.Ahmad@pacra.com +92-42-35869504

Profile

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.

Background Rural Community Development Programmes ('RCDP' or 'the Company') is a public unlisted company not having share capital incorporated on 03rd November 2015 under Section 42 of the repealed Companies Ordinance 1984. The Company was granted a license to undertake or carry out microfinancing as a Non-Banking Microfinance Company. The Company was operating under the name of Rural Community Development Society (RCDS) since 1995 and formed RCDP due to regulatory requirements.

Operations The principal activity of RCDP is to provide micro-finance services to the under-banked population with a focus on rural customers, to enhance their economic role. Additionally, the Company also strives to provide training and education services to its customers.

Ownership

Ownership Structure The Company currently has three members at the helm as RCDP is a Company limited by guarantee.

Stability 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

Business Acumen The members have extensive and diversified experience of different industries which they leverage to steer RCDP towards greater heights.

Financial Strength The members have the ability to support RCDP 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.

Members' 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 FY23. The quality of discussion as captured in meeting minutes reflects good involvement of the board members in business activities. 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 Grant Thornton Anjum Rahman and Company Chartered Accountants 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 headed the Company since the founding of RCDS in 1995, and has been focused towards providing the best services for the impoverished and the needy.

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, resulting in an effective control environment.

MIS MIS system has user rights assigned to each user to manage their system, where one user can only enter the data and is not allowed to change it once entered, changes may only be done by their departmental heads. Moreover, real-time monitoring is performed of key metrics so that timely actions/decisions may be undertaken.

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. Further, 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. RCDP is in the process of deploying its mobile application to all its branches, enabling centralized monitoring and geo-tagging of customers.

Business Risk

Industry Dynamics Continued inflation and high interest rates in FY24 have increased the cost of doing business for the microfinance industry, squeezing the industry's margins. Passing on high finance costs to customers who are already hit with high inflation has further stressed the industry's customer base, possibly resulting in higher NPLs during FY24.

Relative Position The Company has an Outstanding Loan Portfolio (OLP) amounting to ~PKR 8,270m in end-Dec'23, which constitutes a market share of ~1.5% as per the OLP of microcredit institutions in the country.

Revenue The Company earned ~PKR 2,064m in revenue during 1HFY24 (SPY: ~PKR 1,528m) and ~PKR 3,385m during FY23 (SPY: ~PKR 2,193m). 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 35m (SPY: ~PKR 52m).

Profitability The Company earned a net surplus of ~PKR 475m during FY23 (FY22: ~PKR 157m). The Company earned a net surplus of ~PKR 239m during 1HFY24 (SPY: ~PKR 93m). RCDP has sustained its profitability; however, the high cost of doing business may stress the financials of the Company moving forward.

Sustainability RCDP is focusing on technology integration to streamline its operations in the coming year. Furthermore, the Company has plans to convert the Company to a for-profit company shortly, which will have major implications for its business operations. The projections which consist of a plan for the next 5 years are achievable and RCDP is already on track to complete its targets for FY24.

Financial Risk

Credit Risk Due to the current economic situation, the Company's write-offs stood at ~PKR 14m in 1HFY24, depicting the Company's higher credit risk.

Market Risk Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity price will effect the Company's income or the value of its holding. RCDP's market risk is negligible in terms of exchange rate changes; however, interest rate changes have major implications for the Company.

Funding The majority of the Company's funding is from local banks. RCDP's funding stood at ~PKR 7,092m in end-Dec'23.

Cashflows & Coverages The current liabilities of the Company stood at ~PKR 10,431m in end-Dec'23. The Company has a good amount of current assets to cover its current liabilities, standing at ~PKR 4,512m in end-Dec'23

Capital Adequacy The Company's equity consists of funding of ~PKR 3,279m in end-Dec'23. The current level of equity base is considered adequate, and it may be improved with sustained profits or access to more donations/funding.



PKR mln

Rural Community Development Programmes
Unlisted Public Limited

Dec-23	Jun-23	Jun-22	Jun-21
6M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	8,692	8,142	7,060	4,284
2 Investments	500	400	412	239
3 Other Earning Assets	1,330	161	1,502	1,615
4 Non-Earning Assets	894	899	908	773
5 Non-Performing Finances-net	(422)	(395)	(425)	232
Total Assets	10,994	9,207	9,457	7,143
6 Deposits	-	-	-	-
7 Borrowings	7,092	5,802	6,586	4,664
8 Other Liabilities (Non-Interest Bearing)	623	365	351	116
Total Liabilities	7,715	6,167	6,937	4,780
Equity	3,279	3,040	2,520	2,363

B INCOME STATEMENT

1 Mark Up Earned	2,099	3,505	2,338	1,794
2 Mark Up Expensed	(900)	(1,239)	(756)	(547)
3 Non Mark Up Income	55	108	122	169
Total Income	1,253	2,373	1,704	1,417
4 Non-Mark Up Expenses	(985)	(1,624)	(1,135)	(863)
5 Provisions/Write offs/Reversals	(41)	(274)	(412)	(166)
Pre-Tax Profit	227	475	157	387
6 Taxes	-	-	-	-
Profit After Tax	227	475	157	387

C RATIO ANALYSIS

1 Performance

Portfolio Yield	49.0%	43.6%	35.9%	36.2%
Minimum Lending Rate	45.4%	37.6%	32.8%	32.2%
Operational Self Sufficiency (OSS)	109.0%	113.2%	104.5%	122.4%
Return on Equity	14.4%	17.1%	6.4%	17.8%
Cost per Borrower Ratio	9,743.5	8,360.6	6,915.1	6,032.1

2 Capital Adequacy

Net NPL/Equity	-12.9%	-13.0%	-16.9%	9.8%
Equity / Total Assets (D+E+F)	29.8%	33.0%	26.6%	33.1%
Tier I Capital / Risk Weighted Assets	0.0%	35.7%	0.0%	0.0%
Capital Adequacy Ratio	N/A	N/A	N/A	N/A
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	15.0%	18.9%	6.7%	19.6%

3 Funding & Liquidity

Liquid Assets as a % of Deposits & Short term Borrowings	113.4%	97.1%	261.3%	256.8%
Demand Deposit Coverage Ratio	N/A	N/A	N/A	N/A
Liquid Assets/Top 20 Depositors	N/A	N/A	N/A	N/A
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	0.0%	0.0%	0.0%	0.0%
Net Advances to Deposits Ratio	N/A	N/A	N/A	N/A

4 Credit Risk

Top 20 Advances / Advances	0.0%	0.0%	0.0%	0.0%
PAR 30 Ratio	0.1%	0.2%	4.3%	11.3%
Write Off Ratio	0.3%	2.8%	5.0%	1.8%
True Infection Ratio	0.5%	2.8%	8.0%	12.8%
Risk Coverage Ratio (PAR 30)	3393.5%	3129.8%	235.0%	57.6%

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 Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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