RATING REPORT

Rural Community Development Programmes

REPORT DATE:
February 22, 2019

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity Rating	BBB	A-3
Rating Date	*February 8, 2019*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 2016	**External auditors:** Grant Thornton Anjum Rahman
Company limited by guarantee	**Chairman:** Ms. Ayesha Gulzar
	Chief Executive Officer: Mr. Muhammad Murtaza

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria : Microfinance Institutions (May 2016)
https://www.vis.com.pk/kc-meth.aspx

Rural Community Development Programmes

OVERVIEW OF INSTITUTION	RATING RATIONALE

The company is primarily engaged in mobilizing funds for provision of microfinance services for mitigating poverty and promoting social welfare with the ultimate objective of poverty alleviation. The organization has presence in over 14 districts of Punjab and has divided its operations into 56 branches.

In 1998, Rural Community Development Society (RCDS) was formed to provide integrated development services to the impoverished and neglected communities in Punjab, Pakistan. Subsequently to abide and comply with regulations, RCDS underwent a spin-off process and separated the microfinance and social development aspects; microfinance segment was taken into a new entity by the name of Rural Community Development Programmes (RCDP) while the social development aspects were retained within RCDS in 2016. RCDP has a total branch network of 56 branches which is expected to reach 100 branches by end-2020. All branches of RCDP are located in Punjab.

Rating Drivers:

Credit Risk: Gross loan portfolio of RCDP has exhibited an increasing trend and amounted to Rs. 3.0b (FY17: Rs. 2.0b) at end-FY18. Growth in portfolio was achieved on the back of increase in both the number of active clients and the average loan size. Given the dynamics of the districts in which the organization operates, enterprise loans are the flagship products of the company as the same accounted for more than three-fourths of the total gross microcredit portfolio at end-HY18. Short term investment portfolio comprises term deposit receipts (TDRs) with a bank having a sound credit rating. Hence, overall credit risk profile is considered manageable.

Asset Quality: Despite the growth witnessed in loan portfolio, asset quality indicators of the company remain sound. The same is largely attributable to deployment of paperless loan approval, loan disbursement and payments collection system; this mechanism enables the management to maintain robust internal controls. More than four-fifths of the total GLP constituted group loans at end-FY18, while proportion of individual loans was restricted to one-fifth of the total portfolio. Recovery is also easier in case of group loans due to peer pressure from one of the member of the group or the guarantor of the loan.

Funding and Leverage Indicators: Borrowings remain the primary source of funding for the institution. In line with the growth observed in loan portfolio, borrowings of RCDP have also trended upwards during the past few years. Given the institution's reliance of borrowings as the major source of funding, leverage indicators remain on the higher side. Going forward, disbursements are projected to increase considerably and accordingly, borrowings are also expected to increase. As per management, the organization is in discussion with external parties for further borrowings. Being a non-deposit taking NBFC, achievement of growth targets is contingent upon availability of funding from micro financing institutions on a timely basis.

Capitalization: Given that RCDP is incorporated as a 'Limited by Guarantee Company', there is no share capital present. However, adjusting for accumulated surpluses on the funds, total equity of the institution (including the subordinated loan from RCDS) amounted to Rs. 1.2b (FY17: Rs. 0.9b) at end-FY18. Over the years, equity of the company increased primarily on the back of internal capital generation. The company intends to convert into a bank in the next two years. Developments in this regard are yet to materialize.

Liquidity Risk: In absolute terms, liquid assets stood at Rs. 751.5m (FY17: Rs. 338.4m) at end-FY18. Liquid assets comprise cash and bank balances and Term Deposit Receipts. Given the increase in quantum of borrowings, liquid assets in relation to total borrowings stood low at 28.0% (FY17: 20.2%) at end-FY18. Liquidity will continue to remain a challenge for the institution as building the lending portfolio remains the priority of management.

Profitability: Profitability of the company has depicted a growth on the back of volumetric growth in markup bearing assets over time. However, operating self-sufficiency ratio of the company declined to 191.1% (FY17: 216.2%) in FY18 due to higher growth in administrative expenses vis-à-vis the recurring income. Nonetheless, the same depicts considerable cushion as core income is more than sufficient to cover administrative expenses. Profitability will remain a function of efficient disbursement of advances and quality of assets.

Rural Community Development Programme **Appendix I**

FINANCIAL SUMMARY

(amounts in PKR millions)

	FY18	FY17	FY16
Net Advances	3,039.3	2,009.0	1,332.5
Short term investments	106.0	306.0	106.0
Cash and bank balances	751.5	338.4	179.6
Total Assets	4,166.9	2,746.8	1,686.6
Sub-ordinated loan	54.9	75.4	69.9
Long Term loans (including current maturity and subordinated loan)	2,441.8	1,346.3	796.0
Short term borrowings	298.8	406.0	105.9
Total Liabilities	3,016.6	1,944.6	1,146.4
Total Equity	1,150.3	802.2	540.1
Asset Quality			
Gross Infection (%)	0.5	0.3	0.2
Net Infection (%)	0.0	0.1	0.2
Capitalization and Funding			
Total equity (including subordinated loans)	1,205.2	877.6	610.1
Net Worth % Total Assets (%)	28.9%	31.9%	36.2%
Debt Leverage	2.6	2.4	2.1
Gearing	2.4	2.2	1.7
Profitability			
Profit/ (loss) before Tax	348.1	262.0	104.9
Profit/ (loss) after Tax	348.1	262.0	104.9
Spread (%)	16.1	15.9	
Productivity			
No. of Loan Officers (LOs)	382	245	
No. of Branches	60	41	
No. of Active borrowers	108,565	84,269	
LO/Branch	7	6	
Gross Loan Portfolio /LO	8.5	8.6	
Active borrowers/LO	284	344	
Active borrowers/branch	1,809	2,055	
Average loan size (in Rs.)	47,174	41,322	

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Rural Community Development Programmes				
Sector	Microfinance Institution				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: Entity				
	02/08/2019	BBB	A-3	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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