RATING REPORT

Rural Community Development Programs

REPORT DATE:

April 26, 2023

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity Rating	BBB	A-3	BBB	A-3
Rating Date	*April 26, '23*		*April 30, '22*	
Rating Outlook	*Stable*		*Stable*	
Rating Action	*Reaffirmed*		*Maintain*	

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: Non-Bank Financial Companies (March 2020)
https://www.vis.com.pk/kc-meth.aspx

Rural Community Development Programmes

OVERVIEW OF INSTITUTION

RCDP was set up on November 3rd, 2015 as a non-profit organization under section 42 of the Companies Ordinance 1984. The principal activity of the Institution is to provide cost effective microfinance services to needy persons to enhance their economic role. Presently the Institution has been operating through 108 branches.

RATING RATIONALE

The ratings assigned to Rural Community Development Programs (RCDP) take into account implicit support available from the parent organization, Rural Community Development society (RCDS) both on financial and technical fronts. The ratings take comfort from improvement in asset quality indicators in line with complete write-off of pandemic induced delinquent portfolio carried out during the rating review period coupled with no major portfolio losses incurred in wake of recent catastrophic floods. The ratings reflect positive momentum witnessed in disbursement activities resulting in growth of micro-credit portfolio. The growth strategy is marked by continuing caution with complete transition of group to individual loans and reduction in loan ceilings introduced during pandemic retained; the same has reflected in notable recovery ratios coupled with negligible infection recorded in portfolio built during and post-Covid-19. However, the profitability position remained stressed during the review period on account of write-offs and high operating expenses incurred stemming from network expansion. Moreover, in line with distressed macro-economic indicators with ongoing inflation putting a drag on clients' disposable incomes and repayment capacities, maintenance of asset quality will remain important from ratings perspective.

The assigned ratings factor in ongoing efforts of the management in tapping international funding avenues; the same will assist the Institution in sustaining growth momentum, alleviating pressure on spreads through reduction in average cost of funding and mitigating foreign exchange risk faced. On the other hand, owing to channeling of funds towards lending activities along with repayment of an international loan, the liquidity position has demonstrated weakening on a timeline assessed from quantum of liquid assets in relation to outstanding debt obligations. The ratings derive strength from sizable capital adequacy ratio, reflecting sufficient room for growth. Given the management is implementing an aggressive expansion plan; the impact of the same on operating self-sufficiency (OSS) and overall profitability metrics will remain critical for ratings going forward. Moreover, ratings will remain contingent upon managing spreads and maintaining liquidity indicators while continuing healthy disbursement activities.

In 1998, 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 RCDP while the social development aspects were retained within RCDS in 2016. RCDP has a total branch network of 136 branches all of which are located in Punjab.

Rating Drivers:

Experienced Board and Management Team

RCDP's senior management and board of directors are experienced professionals with considerable experience in the field of microfinance. Presently, the board comprised seven members including three independent directors. The senior management has depicted stability over the years.

Growth in Microcredit Portfolio

The gross micro-credit portfolio augmented on a timeline to Rs. 7.7b (FY22: Rs.7.1b; FY21: Rs. 4.8b) by end-HY23 in line with lending activities reverting back to normal after a period of adoption of consolidation strategy to curtail worsening portfolio health. The loan disbursements were recorded higher at Rs. 10.4b (FY21: Rs. 6.9b) against the target of Rs. 10b during FY22 owing to increase in number of active borrowers coupled with higher average ticket size. Moreover, the upward trajectory in lending activities continued during the ongoing year as well with disbursements amounting to Rs. 6.4b made by end-HY23. The management contemplates to disburse loans around Rs. 13.0b in FY23; the target seems achievable and realistic given almost half of the estimated disbursement was made by end-HY23. Subsequently, the gross loan portfolio is expected to reach Rs. 9.9b by end-FY23. However, given RCDP is a non-deposit taking microfinance institution (MFI), growth will remain contingent upon availability of funding from financial institutions on a timely basis. The new funding arrangements by RCDP for portfolio expansion are discussed later in this report.

Initially, RCDP's lending methodology was predominantly group based which gave rise to problem of dummy borrowers resulting in higher amounts being sanctioned to borrowers exceeding their cash flow generation capacities and repayment thresholds. Therefore, the lending methodology was completely converted into individual lending during the review period to curb the issue of dummy borrowers and hence reduce the magnitude of credit risk. The change in lending methodology also improved the turnaround time of the loan. Credit and Enterprise Development (CED) and Business Enhancement Loan (BEL) continue to remain the flagship products of the institution with a higher contribution of 75% (FY22: 73%; FY21: 70%) in the total performing portfolio in HY23. A fall was witnessed in the contribution of Livestock Financing Program (LFP) to 7% (FY22: 10%; FY21: 15%) mainly due to changing market trends and consumer investment preferences. During HY23, significant disbursements were made under the Renewable Energy product for the first time since its launch in FY20. Moreover, apart from the products discussed above, the contribution of other products has largely remained unchanged. The product mix of the company along with their respective contribution in net loan portfolio is tabulated below:

Microfinance Loan Portfolio	FY21	FY22	HY23	FY21	FY22	HY23
Credit & Enterprise Development (CED)	1,805	2,292	3,074	40%	34%	42%
Business enhancement Loan (BEL)	1,358	2,580	2,443	30%	38%	33%
Enterprise Development Facility (EDF)	408	619	588	9%	9%	8%
Livestock Financing Program (LFP)	668	682	546	15%	10%	7%
Small & Medium enterprise (SME)	163	95	51	4%	1%	1%
Prime Minister Interest Free Loan Program	113	437	466	2%	7%	6%
Renewable Energy	0	0	193	0%	0%	3%
Total	**4,515**	**6,705**	**7,361**	100%	100%	100%

To ensure product success and control credit risk RCDP has diligently crafted an approach to retain existing customers and gradually increase average ticket size. As per management, each new client is taken onboard with the Institution's flagship product, CED, designed for small enterprises and then gradually when a credit profile and relationship is established, the financing limit is enhanced for repeat loans along with add-on features. Eventually the clients with an established credit profile are offered higher ticket loans during the term of their exposure and loan repayment cycle. In line with disbursement activities back on track the number of borrowers increased to 204,187 (FY22: 183,983; FY21: 150,321) by end-HY23. Moreover, the average loan size also increased on a timeline to Rs. 37,948 (FY22: Rs. 38,364; FY21: Rs. 30,893) in HY23 owing to existing clients being added to successive cycles on the back of tested credit repayment history. On the other hand, the average ticket size reduced slightly during the ongoing year due to addition of higher number of new clients recorded at 55,178 (FY22: 81,990) during HY23 stemming from full recovery of lending activities. Nevertheless, the timeline increase in average loan size is likely to positively impact the profitability indicators going forward with improvement in productivity and efficiency. Moreover, the management foresees increase in average loan size amidst higher disbursements, going forward. The following table depicts the breakup of size-wise composition of loans at end-HY23:

S. No.	Description	No. of Clients
1	Up to Rs. 25,000	1,670
2	Rs. 25,000 - Rs. 50,000	87,474
3	Rs. 50,001-Rs. 75,000	41,240
4	Rs. 75,001-Rs. 100,000	57,373
5	Rs. 100,000 and Above	16,430
6	Total	204,187

RCDP deployed Risk and Compliance Department (R&CD) to add a further line of defense against the elevated levels of delinquency faced by the microfinance sector amid COVID-19. R&CD maintained complete telephonic coordination with customers resulting in better understanding of repayment related issues faced by the clients based on which RCDP delayed loan installments from Mar-May'21. In line with hybrid-disbursement strategy adopted during pandemic with relief extended in only one quarter as opposed to one-year relief allowed by other micro-finance providers (MFPs), RCDP was better poised to engage in cautious disbursements with a complete halt recorded for 3-4 months only. Moreover, several initiatives were also undertaken to counter elevated levels of credit risk including decreasing maximum loan ceilings, installment size and shift to individual loans from group-based loans. As a result of increased pre-lending precautions taken, the portfolio built during Covid-19 was better in terms of infection ratios On the other hand, RCDP had one-on-one recovery strategy; the repayment plan was customized for every borrower depending on specific requirements; the Institution also allowed waivers and discounts to expedite repayment. Moreover, given RCDP is not operating in areas affected by recent catastrophic floods, the portfolio loss emanating from the same was negligible.

Loan Approval Process

The loan approval framework entails involvement of risk tier with presence of Verification Officers (VO) to insulate the process by identifying and removing any lags or shortfalls. The loan approval process is initiated by Credit Officer (CO) who visits prospective customers to collect their information and then attaches all the required documents such as CNIC copy, photograph, etc. on the e-appraisal application. E-appraisal application is available on android operating system and can be installed in any android compatible phone or tablet. Additionally, a biometric device is used to collect thumbprint of client along with a mobile data sim to ensure internet connectivity. Post completion of this stage, complete data of customer is accessed by the VO, who are deployed at every branch and supervised by Head Office (HO). The responsibility of the VO is to visit each prospective customer and ensure that the details of the guarantors and the customer are accurate, the loan will be used for the stated purpose and the borrower has sound repayment capacity. Based on his evaluation, the CO provides his recommendation to the Branch Manager (BM) either to accept or reject the loan application. In case, the VO is not satisfied with the provided information, he can also send the application back to CO with his observations. Post feedback, the BM approves the loan, and sends a recommendation to Area Manager (AM). The final approval is given by the Head of Operations located at the HO who reviews all applications that are accepted by the AMs. As an additional layer of protection, the VOs deployed at each branch randomly visit clients to ensure the authenticity of the borrowers, residential premises, source of income and appropriate utilization of the loan. Apart from all pre-disbursement checks, the Compliance Officer carries out post-disbursement monitoring of the entire micro-credit portfolio.

Productivity Analysis and Branch Network

Total number of LOs employed by the bank stood higher at end-HY23 due to induction of 219 new LOs during the rating review period. However, the number of LOs per branch decreased in line with increase in number of branches during the rating review period; this includes nine Prime Minister Interest Free Loan (PMIFL) branches. Loan officers' attrition rate has remained manageable at 4.5%. With increase in number of branches offset by additional hiring of LOs, the number of LOs per branch has remained range-bound. However, with disbursement activities back to full swing, the number of clients per LO has increased gradually on a timeline; the same remains well within manageable efficiency levels. Moreover, average portfolio amount per LO was also recorded higher at Rs. 8.95m (FY22: 8.7m; FY21: Rs. 7.5m) at end-HY23 on account of increase in outstanding portfolio size and higher average ticket size.

Productivity	FY21	FY22	HY23
No. of Loan Officers (LOs)	646	815	865
No. of Branches	92	136	136
No. of Active borrowers	150,321	183,981	204,187
LO/Branch	7	6.0	6.4
Active borrowers/LO	233	226	236
Active borrowers/branch	1,634	1353	1501
Average loan size (in Rs.)	30,893	38,364	37,948

In the outgoing year, the Institution developed a five-year expansion plan to increase its outreach and improve overall financial inclusion statistics of the country under SBP's initiatives. According to the plan the management intends to add five areas and ten new branches in the ongoing year. So by end-FY23, RCDP is expected to have operations in 29 areas (FY22: 23) and 146 branches (FY22: 136).

Improvement in Asset Quality Indicators

After complete write-off of the rescheduled portfolio under the regulatory relief provided during pandemic, the credit risk emanating from the microfinance loan portfolio exhibited a decreasing trend indicated by reduction in infection ratios. The rescheduled gross loan portfolio (GLP) under the regulatory relief was almost completely eliminated during the rating review period with the same recorded at mere Rs. 0.7m (FY22: Rs.185.3m; FY21: Rs. 659.2m) by end-HY23 largely on account of write-offs made against classified loans. In aggregate, the write-offs made during the outgoing and ongoing year were recorded at Rs.481.4m. The non-performing loans (NPLs) decreased to Rs. 209.9m (FY21: Rs. 546.7m) by end-FY22, out of same major delinquencies amounting to Rs.185.4m (FY21: Rs. 538.9m) pertained to the portfolio rescheduled under SECP's covid-relief. However, in line with the write-offs carried out during the period under review, the NPLs stemming from rescheduled portfolio were subsequently recorded at non-existent level at Rs. 0.7m at end-HY23 given the time relaxation for repayment extended under the relief lapsed; the same resulted in total NPLs scaling down to Rs. 45.2m at end-HY23. On the flip side, NPLs related to normal portfolio have increased on a timeline amounting to Rs. 44.5m (FY21: Rs. 24.5m, FY20: Rs. 7.8m) at end-HY23; the same may increase further due to weakening of macro-economic indicators including sharp rise in market bench rates and double-digit inflation culminating in hampering of debt repayment capacity of micro-credit borrowers.

The specific provisioning charge exhibited a mixed trend during the period under review as the same was recorded highest at Rs. 205.1m (FY21: Rs. 67.5m) at end-FY22 after which it declined to Rs. 31.1m at end-HY23; the trend was a function of time-based criteria used to recognize different levels of impairment with the specific provisioning charge being removed once write-offs are carried out. However, the number for specific provisioning decreased considerably by end-HY23, mainly because 99% of the remaining rescheduled portfolio was written-off in FY22. In addition to specific provision, RCDP maintains a general provision account equivalent to 5% (FY21: 6.5%) of the gross outstanding portfolio as opposed to regulatory requirement of 0.5% to meet the requirements of its donors; the same reflects the elevated level of prudence practiced at RCDP. Resultantly, with reduction in quantum of NPLs coupled with augmentation of microcredit portfolio, asset quality indicators have improved sizably on a timeline during the rating review period. The incremental infection was recorded negative at end-FY22 in line with sizable write-off amounting to Rs. 301.9m carried out during the outgoing year. Moreover, the decline in provisioning coverage seen at end-HY23 is a function of scrapping out of 100% provided NPLs from the books along with the new delinquent clients falling in the lower provisioning requirement bracket. A snapshot of asset quality indicators is presented below:

Portfolio quality Indicators	FY21	FY22	HY23
NPLs % Total Advances (gross)	11.30%	2.97%	0.61%
Net NPLs % of Net Advances: Net Infection	10.10%	0.07%	0.18%
Incremental Infection	12.70%	-0.59%	0.20%
Provisioning Coverage	12.40%	97.71%	68.89%

Investment avenues of RCDP are restricted to term deposit receipts (TDRs) of different maturities, markup ranging from 8.9% to 14.1% (FY21: 6.1% to 13.15%), amounting to Rs. 400.0m (FY22: Rs. 400.0m; FY21: Rs. 222.5m) held with banks having sound credit ratings at end-HY23. Therefore, overall credit risk originating from investment portfolio is considered limited. Moreover, since all the investments made by RCDP are short-term in nature so no sizable market risk is associated with them.

Post COVID-19 the management has continued its collection strategies adopted during pandemic and remained highly active in recovery activities at multiple levels. RCDP has one on one recovery strategy; the repayment plan is customized for every borrower depending on specific requirements, the institution does allow waivers and discounts to expedite repayment. The operations team has a strategy of remaining focused on collection for the first half of the month with slow disbursements made during this period while for the second half the team largely focuses on disbursements. In line with implementation of this strategy, the Institution is successful in recovering 80-85% of the installments in first half of the month. Moreover, as per the management the recovery rate of post-COVID portfolio is recorded noteworthy at 99.87%. To facilitate the recovery drive, RCDP has doorstep collection policy in place along with availability of alternate delivery channels (ADC) including UBL Omni, Easy Paisa and HBL Konnect. In line with the aforementioned efforts, the screening of the entire clientele has been completed. In HY23, the Institution has made recoveries amounting Rs. 5.5b (FY22: Rs. 7.9b; FY21: Rs. 6.6b). In addition, a comprehensive recovery mechanism is also in place to recover from written-off accounts; the management plans to retrieve Rs. 30m from the aforementioned accounts in FY23. Given the Institution has completely written-off the rescheduled portfolio and is cautiously expanding its operations the management is confident about maintaining the portfolio quality and recovery levels, going forward.

Liquidity Profile

RCDP's liquidity position has weakened on a timeline basis as reflected by decreasing liquid assets held in relation to outstanding obligations recorded at 14.3% (FY22: 32.2%; FY21: 46.1%) at end-HY23. Given the Institution has switched from a conservative lending approach with disbursement activities picking pace post covid-19 crisis, sizable liquid funds were channelized towards micro-credit lending during the rating review period. Moreover, funds parked in current and deposit accounts significantly declined to Rs. 426.9m (FY22: 1.8; FY21: Rs. 1.9b) by end-HY23; the same was an outcome of repayments of outstanding debt obligations including Rs. 1.1b repayment of SIMA term-finance made during FY22. Resultantly, in absolute terms, liquid assets stood lower at Rs. 826.9m (FY22: Rs. 2.2b; FY21: Rs. 2.1b) at end-HY23. As per management, excess liquidity was maintained during the last two financial years as a cushion amidst higher expected write-offs pertaining to COVID-19 rescheduled portfolio, scheduled repayments of borrowings and for conserving CAR.

Suppressed profitability indictors during the outgoing year; high provisioning expense/write offs and operating expenses are the main contributing factors:

Profitability position of the Institution was marked by downward trajectory as a combined outcome of reduction in spreads, sizable write-offs carried out owing to higher incidence of NPLs during Covid-19 along with increase in administrative expense during FY22. The OSS has declined on a timeline basis; the same has been a function of significant write-offs/provisioning carried out to the tune of Rs. 341.2m (FY21: Rs. 165.7m) during FY22 coupled with high operating expenses amounting to Rs. 1.1b (FY21: Rs. 863.5m) recorded vis-à-vis the recurring income in line with management's strategy of enhancing market footprint of the institution by opening new branches during the outgoing year. Nevertheless, despite dip in the OSS ratio; the same still has adequate cushion as core income is sufficient to cover core expenses. However, going forward in line aggressive expansion plan in the pipeline involving additional staff hiring till FY24 OSS can come under pressure; maintenance of the same at around current levels is considered critical from the ratings perspective.

RCDP's markup bearing assets comprise advances extended to customers and banks deposits. Markup earned on microfinance portfolio increased to Rs. 1.8b (FY21: 1.4b) in line enhanced average loan portfolio along with higher yield reaped on the same at 36.2% (FY21: 35.5%) during FY22. In RCDP, unlike other MFPs the micro-credit portfolio yield includes charge for loan processing fee (LPF) which was charged at 5% (FY21: 3%) for every loan application during FY22. The increase of 200bps was the main contributor of increase in advances yield as barring LPF the yield on portfolio was recorded largely unchanged at 29.6% (FY21: 29.8%) during the outgoing year. In absolute terms the documentation charges were recorded higher at Rs. 393.6m (FY21: Rs. 270.5m) during FY22. On the other hand, the yield on markup bearing assets declined to 22.1% (FY21: 24.0%) as LPF in not included for calculation along with reduction in yield on investment to 6.3% during FY22 in comparison to 10.7% in the preceding year; the same was an outcome of higher average balances parked in current accounts as opposed to saving accounts during the outgoing year. On the flip side, with noticeable increase in average quantum of borrowings along with higher average benchmark rates during FY22, the finance cost increased to Rs. 848.3m (FY21: Rs. 546.9m) during FY22. Moreover, as a result of increase in the prevailing benchmark rates during the outgoing year, cost of funding increased to 12.6% (FY21: 11.7%) during FY22. In view of the respective movements in average return on markup bearing assets and average cost of funds, spreads of the Institution were reported lower at 9.6% (FY21: 12.3%) during FY22. The other income was largely recorded at prior year's level at Rs. 141.8m (FY21: Rs. 135.1m) during FY22; the same majorly includes unrealized gain on foreign currency loans outstanding and Forward Rate Agreements (FRA). In line with decline in spreads and OSS, RCDP's bottom line was recorded lower at Rs. 211.4m (FY21: Rs. 387.4m) in FY22 despite growth in micro-credit portfolio. The Institution has got itself approved under section 2 (36) of the Income Tax Ordinance, 2001 for getting entitlement of tax credits under section 100C (100% credit of tax liability). Therefore, the Institution has not made any provision for taxation for the year.

During HY23, markup received from advances portfolio was recorded at Rs. 1.2b exhibiting an increase on annualized basis on account of growth in microcredit portfolio along with improvement in yield on markup bearing assets to 31.4%; the increase in micro-credit yield originated from upward price adjustment by 2%. However, cost of funds also increased to 19.3% owing to all time high benchmark rates. However, despite increase in borrowing cost, spreads of the organization increased to 12.1% during HY23 in line with subsequent jump in yield of mark-up bearing assets. VIS will continue to monitor movement in spreads during the rating horizon, ability to maintain the same at current levels will remain one of the key rating drivers. There was considerable increase in administrative expenses primarily pertaining to staff related costs, which were recoded higher as an outcome of additional hiring of employees and opening of new branches to cater to growing business needs. The provisioning and write-off charge was recorded at 214.9m during HY23. Moreover, other income largely comprised net exchange gain. However, despite enhancement of spreads the Institution reported lower profit before tax at Rs. 92.5m on account of significant increase in operating expenses. RCDP projects to book mark-up on advances amounting to Rs. 2.8b for FY23; the target seems to a realistic and achievable in line with 200 basis point increase made in prices on the lending side. Given RCDP follows fixed pricing for its advances' portfolio, the increasing interest rate scenario is expected to put a drag on Institution's spreads and profitability indicators going forward. To combat the concern, the management plans to increase the product prices cumulatively by 3-5% during the ongoing year out of which 2% increase has already been carried out. This policy has assisted RCDP in passing on the cost of new assets created by aligning the lending rates with borrowing rates. However, the impact of the increase will be assessed over time as higher pricing in times of current inflation can lead to increased credit risk owing to additional pressure on clients' disposable incomes.

Capital adequacy ratio represents sizeable room for growth: RCDP is a micro-finance institution with no access to consumer deposits, therefore, borrowings continue to remain the primary source of funding. Total borrowings of the Institution were recorded higher on a timeline at Rs. 5.8b (FY22: Rs. 6.8; FY21: Rs. 4.7b) in line with growth in GLP at end-HY23. The largest proportion of borrowings was acquired from Pakistan Microfinance Investment Company (PMIC followed demand finance facility from National Bank of Pakistan (NBP). During the period under review, one additional new agreement has been executed with PMIC on 6th Jan, 2022 amounting to Rs. 1.7b out of which 1.1b has been availed. The facility carries markup charge at 3M-KIBOR plus 3.5%; the principal is payable after one-year grace period while quarterly installments for principal and markup are to be serviced. In addition, demand finance facility to the tune of Rs. 1.0b was obtained from NBP during FY22. During 2019, an agreement was signed with SIMA for an amount of USD 5m at the rate of 6M-Libor plus 6.5% subject to minimum of 7.5% and maximum of 8%; markup was payable on quarterly basis. The loan was repayable in lump sum at the end of loan period, i.e. October 6, 2021. However, RCDP had this facility rescheduled on July 31, 2021, and received an extension in loan tenure. According to the rescheduled agreement the company had to repay its loan amount in two tranches i.e., 2.5m USD in June 2022 and remaining 2.5m USD in October 2022. Subsequently, the SIMA loan amounting to Rs. 1.1b at end-FY22 was fully repaid by end-HY23. Moreover, the Company has forward contracts in place to mitigate the exchange risk on foreign currency loans. On the other hand, short-term borrowings largely remained range bound during the rating review period and were recorded at Rs. 846.6m (FY22: Rs. 833.3m; FY21: Rs. 840.3m) at end-HY23. At present, RCDP has access to aggregate financing facilities of Rs. 5.8b from various financial institutions. The breakdown of borrowings is presented in the table below:

Rs. in millions	FY21	FY22	HY23
Loan from Pakistan Microfinance Investment Co. Ltd.	2,549.5	3,400.0	3,600.0
Demand Finance (HBL)	0.0	57.1	34.6
Demand Finance (UBL)	20.9	8.9	3.0
SIMA (Term Finance)	800.7	1,024.2	0.0
Rural Community Development Society-Related Party	0.0	0.0	0.0
Demand Finance (BOP)	56.3	0.0	0.0
Demand Finance (NBP)	0.0	1,000.0	875.0
PPAF (Microcredit Revolving Loan)	396.0	431.1	431.1
Total Long-Term Borrowings including Current Portion	**3,823.3**	**5,921.4**	**4,943.6**
Running Finance Facility from HBL	91.0	83.3	96.6
Running Finance Facility from UBL	250.0	250.0	250.0
Demand Finance (NBP)	499.2	500.0	500.0
Total Short-Term Borrowings	**840.3**	**833.3**	**846.6**
Total Borrowings	**4,663.5**	**6,754.6**	**5,790.2**

Being a non-deposit NBFC, the growth objectives of the institution are always synced with availability of funding opportunities. Therefore, in view of expansion in operations while pursuing aggressive portfolio growth, the institution has been actively pursuing to make new funding arrangements along with enhancement of existing facilities. The Institution has partnered with NBP to raise capital to the tune of around Rs. 1b for a tenor of three years. In addition to this, term-sheet finalization has been done with an NBFC for a loan amounting to Rs. 600.0m with NBP involved as a credit risk guarantor; RCDP is expected to have access to funds by end-3QFY23. In addition, the management is also negotiating with several international lenders and has a USD 3.0m loan in the pipeline. The Institution has also requested for credit upscaling of the loan to USD 7-10m syndicated loan; the facility is expected to have a markup locked in at Secured Overnight Financing Rate (SOFR) plus 2-3% with a tenor of 5-7 years. For this particular financing arrangement, RCDP will enter into a forward agreement with Bank of Punjab to give the Institution local currency loan based on the conversion rate of the day. Moreover, there are plans to arrange Nostro accounts in international branches of MCB, UBL and HBL to park the entire loan amounts received in foreign denomination. The respective commercial banks will then mark a lien on those accounts and make the amounts available to RCDP in local currency denomination through branches in Pakistan; this practice will help in mitigating foreign exchange risk faced by the Institution. Moreover, the new borrowing arrangements are also expected to alleviate pressure on spreads as the average cost of borrowing is likely to be reduced to 12-13% from 18-20% recorded during the ongoing year.

Limited by Guarantee Company

Given that RCDP is incorporated as a 'Limited by Guarantee Company', there is no share capital present. However, adjusting for internal capital generation, total reserve funds of the institution scaled up to Rs. 2.7b (FY22: 2.6b; FY21: Rs. 2.36b) by end-HY23. Over the years, in order to reduce reliance on external funding resources to finance its microfinance loan portfolio, the Institution has created a loan revolving fund (reserve); an amount equal to 60% of the surplus for the year is transferred to loan revolving fund on yearly basis. Moreover, RCDP has also created an additional reserve for construction of buildings for its offices amounting to 25% of the yearly surplus. With decrease in quantum of NPLs coupled with higher reserve funds, NPLs to Tier-1 equity decreased notably on a timeline to 0.5% (FY22: 0.2%; FY21: 20.3%) by end-HY23. In terms of capital adequacy, RCDP is comfortably placed; capital adequacy ratio (CAR) stood at 32.9% (FY2: 33.3%; FY21: 43.7%), representing sizable room for growth. Going forward, the CAR is targeted to be maintained at around 35%.

Rural Community Development Programme — Appendix

BALANCE SHEET	30-Jun-20	30-Jun-21	30-Jun-22	31-Dec-22
Cash & Bank Balances	830.2	1,927.70	1,772.7	426.9
Short-term Investments	1,152.50	222.5	400.0	400.0
Net Advances	4,392.70	4,515.20	6,705.5	7,361.4
Operating Fixed Assets	180.2	172.4	306.4	316.6
Other Assets	376.1	304.7	345.4	256.8
Total Assets	**6,931.70**	**7,142.50**	**9,529.9**	**8,761.6**
Short-Term Borrowings	846.598	840.3	833.3	846.6
Long-Term Borrowings	3930.6	3823.3	5921.3	4943.7
Borrowings	4,777.2	4,663.6	6,754.6	5,790.3
Other Liabilities	173.6	116.4	161.19	313.63
Tier-1 Equity	1,980.90	2,362.50	2,565.1	2,657.7
Net Worth	1,980.90	2,362.50	2,565.1	2,657.7
Paid-Up Capital	N/A	N/A	N/A	N/A
INCOME STATEMENT	30-Jun-20	30-Jun-21	30-Jun-22	31-Dec-22
Net Mark-up Income	946	861.7	912.1	638.5
Loan Processing Fee	249.8	270.5	393.6	285.4
Bad Debts Write-Off	58.21	83.04	302.2	180.4
Net Provisioning / (Reversal)	-20.7	82.7	39.0	34.5
Other Income	136.5	284.3	288.4	103.5
Operating Expenses	840.6	863.5	1,086.9	723.9
Profit Before Tax	454	387.4	211.4	92.6
Profit after tax	454	387.4	211.4	92.6
RATIO ANALYSIS	30-Jun-20	30-Jun-21	30-Jun-22	31-Dec-22
Gross Infection (%)	1.2	11.3	3.0	0.6
Incremental Infection (%)	1.4	12.7	-0.6	0.2
Provisioning Coverage (%)	18.9	12.4	97.7	68.9
Total Provisioning to Markup Income (%)	17.6	22.7	20.0	31.2
Net Infection (%)	1	10.1	0.1	0.2
Net NPLs to Tier-1 Capital (%)	2.3	20.3	0.2	0.5
Capital Adequacy Ratio (%)	37.1	43.7	33.3	32.9
Markup on earning assets (%)	30.2	24.0	22.1	31.4
Cost of Funds (%)	15.7	11.7	12.6	19.3
Spreads (%)	14.5	12.3	9.6	12.1
OSS (%)	149.2	134	109.3	-
ROAA (%)	7.2	5.5	2.5	2.0
ROAE (%)	25.6	17.8	8.6	7.1
Liquid Assets to deposits & borrowings (%)	42	46	32.2	14.3

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	see table below
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2023 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: Entity		
26/04/2023	BBB	A-3	Stable	Reaffirmed
30/04/2022	BBB	A-3	Stable	Maintained
29/04/2021	BBB	A-3	Rating Watch Developing	Maintained
16/07/2020	BBB	A-3	Rating Watch Negative	Maintained
02/08/2019	BBB	A-3	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Ghulam Haider	Head of Business Affairs & CEO's Secretariat	15^{th} February 2023
2	Mr. Shamim Haider	Head of Risk	15^{th} February 2023