# RATING REPORT

# Rural Community Development Programmes

**REPORT DATE:**
May 02, 2024

**RATING ANALYSTS:**
Musaddeq Ahmed Khan
musaddeq@vis.com.pk

Muhammad Meeran Siddique
meeran.siddiqui@vis.com.pk

Mohammad Ahmed
mohammad.ahmed@vis.com.pk

| 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*** | *May 02, 2024* | | *April 26, 2023* | |
| **Rating Outlook** | *Stable* | | *Stable* | |
| **Rating Action** | *Upgrade* | | *Reaffirmed* | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 2016** | **External auditors:** Ilyas Saeed & Co. Chartered Accountants |
| **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**<br>**https://docs.vis.com.pk/Methodologies%202024/NBFCs202003.pdf** |
| **VIS Issue/Issuer Rating Scale**<br>**https://docs.vis.com.pk/docs/VISRatingScales.pdf** |

## 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.*

### RATING RATIONALE

The ratings assigned to the Rural Community Development Programmes (RCDP), encompass implicit support from its parent entity, the Rural Community Development Society (RCDS), both on financial and technical fronts. The ratings reflect a positive trajectory marked by improvement in asset quality metrics and the absence of significant portfolio losses despite prevailing macroeconomic conditions. Of significance is the momentum in disbursement activities, culminating in the expansion of the micro-credit portfolio. Strategically, a cautious approach underpins the growth trajectory, characterized by a shift towards individual loans while profitability has seen a significant improvement despite notable write-offs and heightened operating expenses attributed to network expansion initiatives. In the face of challenging macroeconomic dynamics characterized by persistent inflationary pressures impacting clients' disposable incomes and repayment capacities, the maintenance of asset quality is important from a ratings perspective.

Furthermore, the ratings incorporate the allocation of funds towards lending activities alongside the repayment obligations of international borrowings, although concerns arise from a weakening liquidity position over the assessed timeline. Nonetheless, the Institution benefits from a sizable capital adequacy ratio, reflecting sufficient room for growth. Given the management's pursuit of an expansion agenda, the forthcoming impact on operating self-sufficiency (OSS) and overall profitability metrics are pivotal for future ratings assessments. Additionally, the management's ability to manage spreads, liquidity indicators, and healthy disbursement activities will be crucial factors in sustaining the assigned ratings moving forward.

**Auditor's Opinion**

Ilyas Saeed & Co. Chartered Accountants has provided an unqualified and unmodified opinion, affirming that the Company's financial statements comply with accounting standards and accurately portray the Company's financial position as of June 2023.

**Company Profile:**

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 is limited by guarantee having no share capital. The principal activity of the Institute is to provide cost effective micro finance services to needy persons in order to enable economic participation. In addition, the Institution also provides services in the form of training, both to its clients and staff. The registered office of the Institution is situated in Lahore.

RCDP's senior management and Board of Directors are experienced professionals with considerable experience in the field of microfinance. The Board oversees three committees: the Board Audit Committee (BAC), Board Remuneration Committee (BRC), and Board Risk Management and Compliance Committee (BRCC), all chaired by independent directors.

**Productivity Analysis and Branch Network**

The total number of Loan Officers (LOs) employed by the Institution has increased over time till FY23, aligning with the Institution's strategy to expand its presence, reaching 956 (FY22: 815). However, the number of LOs per branch has decreased due to proportionally higher increase in the number of branches during the rating period. Additionally, there was a rise in the number of active borrowers in FY23, also driven by the Institution's expansion strategy. However, the proportionately greater increase in LOs compared to active borrowers has led to a decline in the Active Borrowers per LO ratio.

Amid the uncertain political and macroeconomic landscape in Pakistan, RCDP scaled back its expansion plans in the early part of the current financial year. As a result, during 1HFY24, the number of LOs decreased to 906 (FY23: 956), while the number of branches remained constant. The Institution aimed to grow the number of active borrowers by providing smaller token loans for Credit Enterprise Development (CED) loans. Conversely, for other loan products with a higher proportion of bad debt write-offs, the Institution planned to increase the average loan size of such loans by primarily targeting the existing creditworthy borrowers. As a result of these strategies, the Institution experienced an increase in both the number of active borrowers and the average loan amount to 208,196 (FY23: 204,552) and Rs. 41,810 (FY23: Rs. 39,871) respectively. Concurrently, Active Borrowers per LO and Active Borrowers per branch ratios also increased during 1HFY24. A snapshot of productivity analysis indicators is attached below:

| Productivity | FY21 | FY22 | FY23 | 1HFY24 |
|---|---|---|---|---|
| No. of Loan Officers (LOs) | 646 | 815 | 956 | 906 |
| No. of Branches | 92 | 136 | 162 | 162 |
| No. of Active Borrowers | 150,231 | 183,668 | 204,552 | 208,196 |
| LO/Branch | 7 | 6 | 5 | 5 |
| Active Borrowers/LO | 233 | 225 | 213 | 229 |
| Active Borrowers/Branch | 1,634 | 1,350 | 1,262 | 1,285 |
| Average Loan Size (Rs.) | 30,893 | 38,364 | 39,871 | 41,810 |

**Rating Drivers:**

**Growth in Gross Loan Portfolio (GLP)**

The Gross Loan Portfolio (GLP) showed steady growth over the timeline, reaching Rs. 8.2 bn by the end of FY23, up from Rs. 7.1 bn in FY22 and Rs. 4.8 bn in FY21. This growth aligned with increased lending activities during the rating period. Loan disbursements rose to Rs. 13.1 bn (FY22: Rs. 10.4 bn) in FY23, driven by an increase in the number of active borrowers and larger average loan sizes. Total recoveries reached Rs. 11.7 bn FY23 (FY22: Rs. 7.9 bn). The surplus of disbursements over recoveries led to the expansion of the GLP.

During 1HFY24, the GLP stood at Rs. 8.8 bn. Disbursements totaled Rs. 7.3 bn (FY23: Rs. 13.1 bn), while recoveries amounted to Rs. 6.7 bn (FY23: Rs. 11.7 bn). Going forward, as RCDP is a non-deposit taking microfinance institution (MFI), its growth in GLP hinges on securing timely funding from financial institutions.

**Microcredit Portfolio Risk Segregation**

Originally, RCDP primarily employed a group-based lending approach. However, higher risk associated with this approach precipitated a transition to individual lending during FY22. The Institution's flagship products, CED and Business Enhancement Loan (BEL), maintained their prominence in the net performing loan portfolio during FY23, contributing 48.0% and 32.3%, respectively. There has been a decline in the contribution of all loan products to the portfolio, except for CED, relative to FY22. This change is attributed to an increase in the proportion of bad debt write-offs for these products, thereby, the Institution has reduced the proportion of these products in the loan portfolio accordingly.

In 1H'FY24, disbursements totaling Rs. 6.3 bn were allocated towards CED and BEL products. The proportion of CED within the overall net loan portfolio saw a slight uptick, reaching 49.4%. Similarly, BEL's contribution increased marginally to 33.7%. Below is a tabulated breakdown showcasing the Institution's product mix along with their respective contributions to the net loan portfolio:

| Microfinance Loan Portfolio (Net) | FY21 | % | FY22 | % | FY23 | % |
|---|---|---|---|---|---|---|
| Credit & Enterprise Development (CED) | 1,805 | 40.0% | 2,292 | 34.2% | 3,718 | 48.0% |
| Business enhancement Loan (BEL) | 1,358 | 30.1% | 2,580 | 38.5% | 2,499 | 32.3% |
| Enterprise Development Facility (EDF) | 408 | 9.0% | 619 | 9.2% | 504 | 6.5% |
| Livestock Financing Program (LFP) | 668 | 14.8% | 682 | 10.2% | 462 | 6.0% |
| Small & Medium enterprise (SME) | 163 | 3.6% | 95 | 1.4% | 35 | 0.5% |
| Prime Minister Interest Free Loan Program | 113 | 2.5% | 437 | 6.5% | 478 | 6.2% |
| Others | 0 | 0.0% | 0 | 0.0% | 52 | 0.7% |
| **Total** | **4,515** | **100.0%** | **6,705** | **100.0%** | **7,747** | **100.0%** |

During 1HFY24, the average loan size rose to Rs. 41,810 (FY23: Rs. 39,871; FY22: Rs. 38,364). This increase was driven by existing clients entering successive loan cycles, and leveraging their proven credit repayment history. RCDP has implemented a strategic approach to maintain existing customer relationships and gradually increase the average loan size to ensure growth while mitigating credit risk. According to management, each new client is initially offered the Institution's flagship product, CED, tailored for small enterprises. Over time, as the client establishes a credit profile and relationship with the Institution, their financing limit is raised for subsequent loans, accompanied by additional features. Eventually, clients with well-established credit profiles are eligible for larger loans throughout their exposure and loan repayment cycle. Concurrently, with a focus on disbursing loans to new, creditworthy borrowers, the number of active borrowers grew to 208,196 by the end of the first half of FY24, up from 204,552 in FY23 and 183,668 in FY22.

| Description as of Dec'23 | In. Rs. | No. of Clients |
|---|---|---|
| Upto Rs. 25,000 | 89,830 | 9 |
| Rs. 25,000 - Rs. 50,000 | 2,185,855,970 | 81,589 |
| Rs. 50,001-Rs. 75,000 | 1,693,477,930 | 45,585 |
| Rs. 75,001-Rs. 100,000 | 3,216,072,226 | 62,049 |
| Rs. 100,000 and Above | 1,609,231,681 | 18,966 |
| **Total** | **8,704,727,637** | **208,198** |

In terms of type of payment, comfort is taken from the fact that the share of EMI remained constant at 96% over the year in FY23. The higher proportion of EMI is a factor of high contribution of enterprise loan products, such as Credit and Enterprise Development, entailing monthly installments.

| **EMI vs Bullet** (Rs. mn) | FY21 | % | FY22 | % | FY23 | % |
|---|---|---|---|---|---|---|
| EMI | 4,715 | 97.6% | 6,770 | 95.9% | 7,826 | 96.0% |
| Bullet | 114 | 2.4% | 289 | 4.1% | 330 | 4.0% |
| **Total** | **4,829** | **100%** | **7,059** | **100%** | **8,156** | **100%** |

Similarly, in accordance with the RCDP's policy post COVID, group lending is restricted to mitigate the credit risk associated with activist engagements, loan hijacking, recovery pocketing, and improper loan utilization. Furthermore, RCDP does not intend to introduce group lending during the rating period.

| **Group vs Individual** (Rs. mn) | FY21 | % | FY22 | % | FY23 | % |
|---|---|---|---|---|---|---|
| Group Based | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| Individual | 4,829 | 100.0% | 7,059 | 100.0% | 8,156 | 100.0% |
| **Total** | **4,829** | **100%** | **7,059** | **100%** | **8,156** | **100%** |

However, the entire portfolio of RCDP comprises of unsecured loans which poses high credit risk leading the portfolio vulnerable to NPLs in the future. RCDP must resort to secured loans in order to mitigate credit risk currently present in the portfolio.

| **Secured vs Unsecured** (Rs. mn) | **FY21** | **%** | **FY22** | **%** | **FY23** | **%** |
|---|---|---|---|---|---|---|
| Secured Loans | 0 | 0% | 0 | 0% | 0 | 0% |
| Unsecured Loans | 4,829 | 100% | 7,059 | 100% | 8,156 | 100% |
| **Total** | **4,829** | **100%** | **7,059** | **100%** | **8,156** | **100%** |

**Loan Approval Process**

The loan approval framework involves a risk tier system with Verification Officers (VO) playing a crucial role in ensuring a smooth process by identifying and addressing any potential shortcomings or delays. The process begins with a Credit Officer (CO) visiting potential customers to gather information and gather all necessary documents, such as identity documents, which are then attached to the e-appraisal application. This application is accessible via the Android operating system and can be installed on any compatible device. Additionally, a biometric device is utilized to collect the client's thumbprint, and a mobile data SIM ensures internet connectivity. Once this stage is completed, the VO, stationed at each branch and supervised by the Head Office (HO), reviews the customer's complete data. The VO's responsibility includes visiting each potential customer to verify the accuracy of guarantor and customer details, ensuring that the loan will be used for its stated purpose, and assessing the borrower's repayment capacity.

Based on the VO's evaluation, the CO provides a recommendation to the Branch Manager (BM) regarding the acceptance or rejection of the loan application. If the VO is not satisfied with the provided information, they may return the application to the CO with their observations. After receiving feedback, the BM approves the loan and forwards a recommendation to the Area Manager (AM). The final approval is granted by the Head of Operations at the HO, who reviews all applications accepted by the AMs. As an additional safeguard, VOs stationed at each branch conduct random visits to clients to verify borrower authenticity, residential premises, source of income, and appropriate loan utilization. In addition to pre-disbursement checks, the Compliance Officer conducts post-disbursement monitoring of the entire micro-credit portfolio.

**Asset Quality Indicators**

The breakdown of the GLP indicates that 99.8% (FY22: 97.0%) of the advances are categorized as 'Current', while only 0.02% (FY22: 2.9%) are categorized as 'Bad'. As such, Non-Performing Loans (NPLs) have seen a notable decline, dropping to Rs. 13.0 mn as of Jun'23 (Jun'22: Rs. 209.9 mn), leading to a substantial improvement in the gross infection ratio to 0.2% (FY22: 3.0%), and net infection ratio at 0.1%. The amount of NPLs written off has decreased to Rs. 219.1 mn during FY23 (FY22: Rs. 302.2 mn), indicating reduced credit risk in RCDP's loan portfolio. Additionally, the ratio of bad debt write-offs for CED loans compared to the total bad debt write-offs in the loan portfolio has declined to 20.9% (FY22: 31.2%), staying lower in proportion than the percentage of CED loans to GLP, which currently stands at 48.0% (FY22: 34.2%). Consequently, the percentage of net advances in CED loans has risen to 48.0% (FY22: 34.2%), while it has declined for other loan products, contributing to the lower NPLs written off during FY23.

The specific provisioning of the Institution has seen a significant decrease to Rs. 6.0 mn as of Jun'23 (Jun'22: Rs. 205.1 mn). Subsequently, the specific provisioning coverage has decreased to 45.9% (FY22: 97.7%), indicating improved risk management practices and successful recovery efforts. Following the COVID-19 pandemic, the management has continued its collection strategies, remaining highly active in recovery activities at various levels. RCDP adopts a personalized recovery approach, customizing repayment plans for each borrower based on their specific requirements. The institution allows waivers and discounts to expedite repayment. Operational strategies include a focus on collection in the first half of the month, with slow disbursements, while the second half sees a focus on disbursements. This approach has resulted in successful recovery of 80-85% of installments in the first half of the month. Additionally, RCDP has implemented doorstep collection policies and offers alternate delivery channels (ADCs) such as UBL Omni, Easy Paisa, and HBL Konnect to facilitate the recovery drive.

| Asset Quality Indicators (Rs. mn) | FY21 | FY22 | FY23 | 1HFY24 |
|---|---|---|---|---|
| NPLs | 546.7 | 209.9 | 13.0 | 12.8 |
| NPLs written off | 83.0 | 302.2 | 219.1 | 13.8 |
| Gross Infection | 11.3% | 3.0% | 0.2% | 0.1% |
| Net Infection | 10.1% | 0.1% | 0.1% | 0.1% |
| Incremental Infection | 12.7% | -0.6% | 0.3% | 0.2% |
| Specific Provisioning Coverage | 12.4% | 97.7% | 45.9% | 46.7% |
| Net NPLs/Tier-1 Equity | 20.3% | 0.2% | 0.2% | 0.2% |

**Liquidity Profile**

| Liquidity (Rs. mn) | Jun'21 | Jun'22 | Jun'23 | Dec'23 |
|---|---|---|---|---|
| Investments | 230.4 | 400.0 | 400.0 | 500.0 |
| Cash and Bank Balances | 1,927.7 | 1,772.7 | 424.0 | 1,585.6 |
| **Liquid Assets** | **2,158.2** | **2,172.7** | **824.0** | **2,085.6** |
| **Borrowings** | **4,663.5** | **6,754.6** | **5,802.0** | **7,092.1** |
| Liquid Assets to Borrowings | 46.3% | 32.2% | 14.2% | 29.4% |
| Advances to Borrowings Ratio | 103.5% | 104.5% | 140.6% | 123.4% |
| Liquid Assets to Total Assets | 30.2% | 22.8% | 8.9% | 19.0% |

RCDP is a micro-finance institution with no access to consumer deposits, hence there is no risk of cash calls on deposits, ensuring that liquidity is not affected. Borrowings remain the primary source of funding. Total borrowings of the Institution were recorded highest on a timeline at Rs. 7.1 bn (Jun'23: Rs. 5.8 bn; Jun'22: Rs. 6.8 bn) in line with growth in GLP at end Dec'23. The largest proportion of long term borrowings was acquired from Pakistan Microfinance Investment Company (PMIC). During the period under review, one new agreement has been executed with PMIC on 26th Dec, 2022 amounting to Rs. 1.8 bn out of which 0.6 bn has been availed. On the other hand, short-term borrowings increased significantly during the rating review period and were recorded at Rs. 1.8 bn (Jun'23: Rs. 848.4 mn; Jun'22: Rs. 833.3 mn) at end Dec'23. A new running finance facility is taken from National Bank of Pakistan (NBP) with annual renewals for three years amounting to Rs. 1.0b at a rate of 6 months KIBOR plus 0.5% in 1HFY24. The breakdown of borrowings is presented in the table below:

| Borrowings (Rs. mn) | Jun'21 | Jun'22 | Jun'23 | Dec'23 |
|---|---|---|---|---|
| Pakistan Microfinance Investment Company (PMIC) | 2,549.5 | 3,400.0 | 3,900.0 | 3,700.0 |
| UBL - Demand Finance | 20.9 | 8.9 | 0.0 | 0.0 |
| SIMA - Foreign Currency Loan | 800.7 | 1,024.2 | 0.0 | 0.0 |
| BOP - Demand Finance | 56.3 | 57.1 | 0.0 | 0.0 |
| NBP - Demand Finance | 0.0 | 1,000.0 | 625.0 | 374.8 |
| Micro Credit Revolving Loan - PMIFL | 396.0 | 431.1 | 428.6 | 428.6 |
| BOP | 0.0 | 0.0 | 0.0 | 750.0 |
| **Total Long-Term Borrowings including Current Portion** | **3,823.3** | **5,921.4** | **4,953.6** | **5,253.4** |
| | | | | |
| HBL - Running Finance Facility | 91.0 | 83.3 | 98.4 | 89.0 |
| UBL - Running Finance Facility | 250.0 | 250.0 | 250.0 | 249.7 |
| NBP - Running Finance Facility | 499.2 | 500.0 | 500.0 | 500.0 |
| NBP | 0.0 | 0.0 | 0.0 | 1,000.0 |
| **Total Short-Term Borrowings** | **840.3** | **833.3** | **848.4** | **1,838.8** |
| | | | | |
| **Total Borrowings** | **4,663.5** | **6,754.6** | **5,802.0** | **7,092.1** |

The Advances to Borrowings Ratio experienced a significant uptick, reaching 140.6% (FY22: 104.5%, FY21: 103.5%) as at the end of FY23. However, it subsequently declined to 123.4% by the end of 1H'FY24. Given the absence of any other significant sources of funding, the Institution is relying on its own funds to facilitate microcredit extensions to borrowers. As a non-deposit taking NBFC, and in view of expansion in operations, the Institution has been actively seeking new funding arrangements along with enhancement of existing facilities. In absolute terms, liquid assets stood at Rs. 2.1 bn (Jun'23: Rs. 0.8 bn; Jun'22: Rs. 2.2 bn) at end Dec'23. Liquid Assets to Total Assets also witnessed a similar trajectory, reaching 19.0% (FY23: 8.9%; FY22: 22.8%) at end-1HFY2423. The total outstanding borrowings with current maturity amounts to Rs. 3.9 bn as at Dec'23, whereas total liquid assets amount to Rs. 2.1 bn. This results in a shortfall of Rs. 1.8 bn. However it should be noted that out of Total GLP of Rs. 8.3 bn, current portion accounts for Rs. 8.0 bn. Resultantly any shortfall in liquidity can be easily managed through maturing advances, placing RCDP in comfortable position in terms of liquidity.

**Profitability**

The markup earned on the microfinance portfolio increased to Rs. 2.9 bn (FY22: Rs. 1.9 bn), primarily due to a higher yield on earning assets, at 33.3% (FY22: 24.5%), driven by the prevailing elevated benchmark rate. Cost of funds stood also rose to 18.6% (FY22: 10.9%). Despite this, the Institution reported a higher spread at 14.7% (FY22: 13.6%). Other income decreased significantly to Rs. 48.0 mn (FY22: Rs. 178.7 mn), primarily due to lower cash and bank balances in deposit accounts as of Jun'23. RCDP reported higher operating expenses, including administrative and program costs, amounting to Rs. 1.6 bn (FY22: Rs. 1.1 bn), in line with management's strategy of enhancing the Institution's market footprint by opening new branches and hiring LOs during the outgoing year. Nevertheless, the Operational Self-Sufficiency Ratio (OSS) improved, reaching 115.2% (FY22: 102.9%), reflecting a surplus of recurring income over expenses, and supporting the bottom line, which increased to Rs. 475.2 mn (FY22: Rs. 211.4 mn).

During 1H'FY24, the markup earned on the microfinance portfolio totaled Rs. 1.8 bn, and the markup on earning assets, on an annualized basis, slightly increased to 34.1%. The markup expense was reported at Rs. 878.2 mn; on an annualized basis, the cost of funds significantly rose to 24.8%, driven by a higher benchmark rate. Consequently, RCDP reported a lower spread at 9.3%. Amid inflationary pressures, the Institution's administrative and program costs amounted to Rs. 973.4 mn, while rising finance costs, totaling Rs. 900.2 mn have restrained the bottom line at Rs. 238.9 mn.

| Income Statement Extract (Rs. mn) | FY21 | FY22 | FY23 |
|---|---|---|---|
| **Net Mark-up Income** | 861.7 | 912.1 | 1,542.4 |
| **Net Provisioning/ (Reversal)** | 82.7 | 39.0 | 54.8 |
| **Non-Markup Income** | 284.3 | 333.8 | 227.5 |
| **Other Income** | 250.3 | 288.4 | 178.7 |
| **Non Markup Expenses** | 863.5 | 1,086.9 | 1,624.2 |
| **Profit/ (loss) before Tax** | 387.4 | 211.4 | 475.2 |
| **Profit/ (loss) after Tax** | 387.4 | 211.4 | 475.2 |

**Limited by Guarantee Company**

| **Capitalization** (Rs. mn) | Jun'21 | Jun'22 | Jun'23 | Dec'23 |
|---|---|---|---|---|
| Loan Revoling fund - restricted fund | 930.9 | 1,057.7 | 1,342.9 | 1,486.2 |
| Reserves for construction of building - restricted fund | 387.9 | 440.7 | 559.5 | 619.2 |
| General fund -unresterictéd funds | 1,034.9 | 1,066.6 | 1,137.9 | 1,173.7 |
| Hedge Reserve | 8.9 | - | - | - |
| **Total fund** | **2,362.5** | **2,565.1** | **3,040.3** | **3,279.2** |
| Leverage (x) | 2.0 | 2.7 | 2.0 | 2.4 |
| Capital Adequacy Ratio (CAR) | 43.7% | 33.3% | 35.6% | 35.2% |

Given that RCDP is incorporated as a 'Limited by Guarantee Company', there is no share capital present. However, with retained earnings, total reserve funds of the institution have scaled up to Rs. 3.8 bn (Jun'23: 3.0 bn; Jun'22: Rs. 2.6 bn) by end Dec'23. 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. The leverage Ratio for RCDP stands at 2.4 (FY23: 2.0; FY22: 2.7), which signifies that gearing is at prudent level given the current economic situations. In terms of capital adequacy, RCDP is comfortably placed; capital adequacy ratio (CAR) stood at 32.2% (FY23: 35.6%; FY22: 33.3%) as at end 1HFY24, representing sizable room for growth.

## Rural Community Development Programme Appendix I

| BALANCE SHEET | 30-Jun-21 | 30-Jun-22 | 30-Jun-23 | 31-Dec-23 |
|---|---|---|---|---|
| Net Advances | 4,515.2 | 6,705.5 | 7,747.1 | 8,269.9 |
| Short term investments | 222.5 | 400.0 | 400.0 | 500.0 |
| Cash and bank balances | 1,927.7 | 1,772.7 | 424.0 | 1,585.6 |
| Total Assets | 7,142.5 | 9,529.9 | 9,207.1 | 10,993.8 |
| Sub-ordinated loan | 0.0 | 0.0 | 0.0 | 0.0 |
| Long term loans | 3,823.3 | 5,921.4 | 4,953.6 | 5,253.4 |
| Short term borrowings | 840.3 | 833.3 | 848.4 | 1,838.8 |
| Total Debt | 4,663.6 | 6,754.7 | 5,802.0 | 7,092.1 |
| Total Liabilities | 4,780.0 | 6,964.8 | 6,166.8 | 7,714.5 |
| Total Equity | 2,362.5 | 2,565.1 | 3,040.3 | 3,279.2 |
| Total equity (including subordinated loans) | 2,362.5 | 2,565.1 | 3,040.3 | 3,279.2 |
| | | | | |
| INCOME STATEMENT | FY21 | FY22 | FY23 | 1HFY24 |
| Net Mark-up Income | 861.7 | 912.1 | 1,542.4 | 820.7 |
| Net Provisioning/ (Reversal) | 82.7 | 39.0 | 54.8 | 27.5 |
| Non-Markup Income | 284.3 | 333.8 | 227.5 | 89.5 |
| Other Income | 250.3 | 288.4 | 178.7 | 48.0 |
| Non Markup Expenses | 863.5 | 1,086.9 | 1,624.2 | 973.4 |
| Profit/ (loss) before Tax | 387.4 | 211.4 | 475.2 | 238.9 |
| Profit/ (loss) after Tax | 387.4 | 211.4 | 475.2 | 238.9 |
| | | | | |
| RATIO ANALYSIS | FY21 | FY22 | FY23 | 1HFY24 |
| Gross Infection (%) | 11.3% | 3.0% | 0.2% | 0.1% |
| Incremental Infection (%) | 12.7% | -0.6% | 0.3% | 0.2% |
| Specific Provisioning Coverage | 12.4% | 97.7% | 45.9% | 46.7% |
| Total Provisioning to Markup Income (%) | 20.6% | 18.5% | 14.1% | 25.0% |
| Net Infection (%) | 10.1% | 0.1% | 0.1% | 0.1% |
| Net NPLs to Tier-1 Capital (%) | 20.3% | 0.2% | 0.2% | 0.2% |
| Capital Adequacy Ratio (%) | 43.7% | 33.3% | 35.6% | 0.0% |
| Markup on Earning Assets (%) | 23.4% | 24.5% | 33.3% | 34.1% |
| Cost of funds (%) | 10.3% | 10.9% | 18.6% | 24.8% |
| Spread (%) | 13.1% | 13.6% | 14.7% | 9.3% |
| OSS (%) | 124.6% | 102.9% | 115.2% | - |
| ROAA (%) | 5.5% | 2.5% | 5.1% | 4.3% |
| ROAE (%) | 17.8% | 8.6% | 17.0% | 14.6% |
| Liquid Assets to Deposits & Borrowings (%) | 46.1% | 32.2% | 14.2% | 29.4% |

| 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 | | | | |
| 02/05/2024 | BBB+ | A-3 | Stable | Upgrade |
| 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 |

| | |
|---|---|
| **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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**Due Diligence Meetings Conducted**

| | Name | Designation | Date |
|---|---|---|---|
| 1 | Mr. Imran Malik | Head of Internal Audit | 5th April 2024 |
| 2 | Mr. Shamim Haider | Head of PMER | 5th April 2024 |
| 3 | Mr. Usman Malik | Head of Finance | 5th April 2024 |