RATING REPORT

CSC Empowerment and Inclusion Programme (CEIP)

REPORT DATE:

February 22, 2024

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	
Rating Category	**Long-term**	**Short-term**
Entity Rating	BBB-	A-3
Rating Date	*Feb. 22, 24*	
Rating Outlook	*Stable*	
Rating Action	*Initial*	

COMPANY INFORMATION	
Incorporated in 2016	**External auditors:** Munif Ziauddin & Co
Company limited by guarantee	**Chairperson:** Ms. Amna Sharif
	Chief Executive Officer: Ms. Shaista Khalid Jan **Board of Directors:** 1. Ms. Amna Sharif (Chairperson) 2. Muhammad Ali 3. Asim Hamid 4. Rabia Saeed **5.** Qaisar Raza

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Non-Bank Financial Companies ***https://docs.vis.com.pk/docs/NBFCs202003.pdf*** **VIS Issue/Issuer Rating Scale** **https://docs.vis.com.pk/docs/VISRatingScales.pdf**

CSC Empowerment and Inclusion Programme (CEIP)

OVERVIEW OF INSTITUTION

CSC Empowerment and Inclusion Programme is a Public Listed Company (with limited liability and not having share capital) (CEIP) incorporated on 19th March 2015 under section 42 of the Companies Act, 2017. The Company was granted to undertake micro-financing as a Non-Bank Microfinance Company on 14th December 2016. The registered office of the Company is situated at 319-4/D-1, Green Town, Lahore

Profile of Chairman

Ms. Amna Sharif holds a degree of BBA from PIMSAT, Islamabad. She has experienced more than ten years in the banking sector. She has worked in Standard Chartered Bank and is currently working in Telenor Pakistan (Pvt.) Limited as treasury Executive.

Profile of CEO

Shaisha Khalid Jan has been associated with Microfinance/ Development sector

RATING RATIONALE

The ratings Assigned to CSC Empowerment and Inclusion Programme (CEIP or "the Institution") take into account improvement in profitability metrics and asset quality indicators coupled with support available from PMIC and PPAF on funding front. Going forward, in line with distressed macro-economic indicators with ongoing inflation putting a drag on client's disposable income and repayment capacities, maintenance of asset quality will remain important from ratings perspective The ratings also factor in the ongoing efforts of the management in tapping international funding avenues; the same will assist the Institution in sustaining growth momentum and alleviating pressure on spreads through reduction in high average cost of funding. In addition, the ratings derive strength from sizable capital adequacy ratio, reflecting sufficient room for growth. Given the management intends to expand its operations going forward; the impact of the same on operating self-sufficiency (OSS) and overall profitability metrics will remain critical for ratings. Moreover, ratings will remain contingent upon managing spreads and maintaining liquidity indicators while continuing healthy disbursement activities.

About the Company

CEIP, public limited company (with limited liability and not having share capital) was established in 1989 as a non-government organization (NGO) for socio-economic empowerment of women and youth in semi-urban setting of Punjab. The Institution was granted license to carry out micro financing as a Non-Banking Microfinance Company (NBMC) on 14th December, 2016. The Institution provides integrated development services to the impoverished and rejected communities in Punjab, Pakistan. CEIP has a branch network of 33 branches in 9 cities of Punjab namely; Lahore, Okara, Sahiwal, DG Khan, Pakpattan, Kasur, Arif wala, Mian Channu and Khanewal. The Institution derives funding from Pakistan Poverty Alleviation Fund (PPAF) and Pakistan Microfinance Investment Company (PMIC). The Institution partnered with PPAF in 2001 and after completion of twelve phases of financial intermediation with the aforementioned, the Institution then partnered with PMIC and successfully completed three financial phases; the same will continue in the future as well.

Rating Drivers:

Experienced Board and Management Team

CEIP's senior management and board of directors are competent professionals with considerable experience in the field of microfinance and financial services. Presently the Board comprises 5 members including the chairperson, Ms. Amna Sharif. Ms. Sharif holds a Bachelor's degree from PIMSAT, Islamabad and has over 10 years' experience in the banking sector. She has worked in Standard Chartered Bank and is currently working in Telenor Pakistan (Pvt) Limited as Treasury Executive. The Board maintains oversight with two Board level committees namely Board Audit Committee and Board HR Committee. In addition, the management is spearheaded by Ms. Shaista

for 17 years and has dedicated 6 years to CEIP.

Khalid Jan who has over 17 years of experience in microfinance/ development sector. Overall, with no key position vacant, the senior management has depicted stability over the years.

Loan Approval & Collection Process

The loan approval process is initiated by Credit Officer (CO) who recommends prospective customers to Branch Manager (BM) after collection of their information, house and business premises visit/ check and detailed cash flow assessment on his/her behalf. 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 BM along with 100% field screening, who are deployed at every branch and supervised by Head Office (HO). CEIP has a hybrid approval process with loans amounting to Rs. 100,000 or less are approved and disbursed by the BM. Subsequently, loans ranging between Rs. 100,000 to Rs. 200,000 require an additional screening performed by the Area Manager (AM) and are only disbursed in physical presence of the BM. Lastly, loans over and above Rs. 200,000 entail involvement of Risk & Compliance Team situated at HO which perform a thorough assessment to remove any lags or shortfalls in credit assessment.

The collection of loan installments was completely digitized during the outgoing year; the same was enabled by integration of Institution's system with Digital Platform Provider *Munsalik* which has partnered up with online banking channels such as Jazz cash, Easy paisa, one link etc. In addition, CEIP also has a partnership with MCB which ensures cashless transactions. To insulate the Institution against credit risk in group lending, the group heads signs a post-dated cheque (PDC) as a documented collateral. Moreover, as per Institution's internal policy, CEIP does not extend loans to borrowers who have previously defaulted or their outstanding loan portfolio is higher than 100,000 are not given a loan. In addition, loans are only extended for existing businesses; moreover, clients with alternative sources of income and slightly above the poverty line are preferred to mitigate non-repayment risk. Moreover, to improve the probability of recovery, the Institution recently introduced an incentive allowance for LOs.

Productivity Analysis and Branch Network

PRODUCTIVITY	2020	2021	2022	2023
No of loan Officers	155	151	162	153
No. of branches	33	33	33	33
No of active Borrowers	38,686	43,903	47,093	42,931
LOs/ Branch	4.7	4.6	4.9	4.6
Active Borrowers/ LO	249.59	290.75	290.70	280.59
Active Borrowers/ Branch	1,172	1,330	1,427	1,301
Average Loan Size	37,640	36,611	40,855	41,354

The total number of LOs employed by CEIP has largely remained range bound in the last four years; the same was recorded slightly lower at end-FY23 as opposed to preceding year owing to high attrition reported on account of common poaching strategy practiced within the microfinance sector. However, given the decline in number of LOs was nominal, LOs per branch largely remained stable during the outgoing year. On the other hand, the number of clients per LO decreased in FY23 in line with conscious consolidation strategy implemented by the management wherein lending to new clients is limited to maintain portfolio health amid weak macroeconomic indicators. Moreover, average portfolio amount handled per LO also stood marginally low at Rs. 11.6m (FY22: Rs. 11.9m) at end-FY23 on account of reduction in gross loan portfolio (GLP) to Rs. 1.78b (FY22: Rs. 1.92b; FY21: Rs. 1.60b) at end of the outgoing year. In addition, only minor increase was evidenced in the average ticket size during FY23. The case load analysis represents manageable efficiency levels with no underlying under-staffing risk faced by the Institution; however, long-term retention of LOs is considered important for sustenance and growth in micro-credit lending going forward.

CEIP developed three-year expansion plan to increase outreach and improve overall financial inclusion statistics of the country; the same is a requirement by PMIC to obtain funding. According to the plan, the management intends to add two and eight branches in FY25 and FY26 respectively; however, no new branch opening is planned for FY24. As a result, the total branch network is expected to augment to 43 by end-FY26.

Microcredit Portfolio

Despite growth on a timeline, the GLP slightly dipped to Rs. 1.78b (FY22: Rs. 1.92b; FY21: Rs. 1.60b) during FY23 in line with relatively lower aggregate disbursement amounting to Rs. 2.76b (FY22: Rs. 2.84b) recorded across different lending programs during the outgoing year. The disbursement activities were deliberately scaled down as a preventive measure to mitigate elevated credit risk scenario prevalent in the sector as the already hampered debt repayment capacity of borrowers post pandemic was further aggravated by current dismal macroeconomic indicators. Subsequently, the number of active borrowers also declined during the outgoing year. With the anticipation of improvement in the economic environment by end-HFY24, the management contemplates to disburse loans amounting to Rs. 3.2.b in FY24 with the same expected to reach Rs. 4.9b during FY26. The target seems achievable as underpinned by inflation the management has to enhance the ticket size to meet the requirements of the borrowers. As per the management, by end-1QFY23 the average loan size was recorded at Rs. 43,000; the same is projected to increase to Rs. 60,000 by end-FY25. Moreover, the projected expansion of outreach is also likely to support disbursement growth. Subsequently, the GLP is targeted to reach Rs. 2.4b by end-FY25. However, given CEIP is a non-deposit taking microfinance institution MFI, growth will remain contingent upon availability of funding from external sources on a timely basis. The funding arrangements by CEIP for portfolio expansion are discussed later in this report.

Microcredit Portfolio Risk Segregations:

CEIP's lending methodology is predominantly group-based accounting for 99.5% (FY22: 98.2%; FY21: 98%) of the GLP during FY23. Generally, in the domestic microfinance sector, group lending has largely been abated as the practice leads to the problem of dummy borrowers resulting in higher amounts being sanctioned to borrowers exceeding their cash flow generation capacities and repayment threshold. However, as per the management, CEIP has not been faced any issue pertaining to that and group borrowing continues to be the preferred mode of lending for them as it exerts social guarantee pressure. In addition, given the Institution is essentially carrying out clean lending, almost the entire microcredit portfolio entails unsecured loans with relation to not backed by any tangible assets like gold or property as security. Owing to unsecured nature of loans, the credit risk emanating from non-repayment instances especially in the current economic downturn scenario is heightened as there is no collateral backing for the loan provided. On the other hand, the proportion of bullet loans has reduced post-FY21 owing to lower disbursement in Bullet Graduation Loan. Going forward, the management plans to eliminate bullet loans completely in the medium term owing to high repayment risk associated with bullet lending especially in times of prevailing economic downturn. The risk wise segregations of the portfolio are presented in the table below:

PORTFOLIO SEGREGATION	2020	2021	2022	2023
SECTOR WISE				
Agriculture	2.6%	5.9%	2.6%	1.8%
Commerce	27.7%	22.0%	19.4%	20.0%
Handicraft	9.8%	8.2%	11.1%	11.1%
Live Stock	19.1%	19.8%	24.5%	20.6%
Manufacturing	0.7%	1.3%	1.8%	2.9%
Others	9.8%	12.2%	10.5%	9.6%
Trading & Business	30.3%	30.5%	30.2%	34.0%
SECURED VS UNSECURED				
Secured	0.02%	0.00%	0.06%	0.12%
Unsecured	99.98%	100.00%	99.94%	99.88%
GROUP VS INDIVIDUAL				
Group	99.1%	98.0%	98.2%	99.5%
Individual	0.9%	2.0%	1.8%	0.5%
BULLET VS EMI				
EMI	95%	93%	93%	95%
Bullet	5%	7%	7%	5%
AVERAGE LOAN SIZE	37,640	36,611	40,855	41,354

Furthermore, sectoral breakdown of the advances' portfolio shows that trading, commerce and livestock, although marked by some decline over the years, remained the main focus areas of the Institution. The management has consciously reduced agri lending post-FY21 owing to bullet repayment structure involved coupled with a high-risk prone segment due to destruction caused by locust attacks and natural catastrophes. Moreover, Business Development (BDL) and Microcredit (MC) loans continue to remain the flagship products of the Institution with an aggregate share of

86.4% (FY22: 84.7%; FY21: 84.4%) in the total performing portfolio in FY23. Apart from the flagship products, the contribution of other products was limited and largely remained unchanged during the last four year. The product mix of the Institution along with their respective contribution in GLP is tabulated below.

Microfinance Loan Portfolio	2020	2021	2022	2023	2020	2021	2022	2023
Business Development Loan	299.1	416.7	590.9	532.8	20.5%	25.9%	30.7%	30.0%
Graduation Loan	31.1	41.9	51.0	49.3	2.1%	2.6%	2.7%	2.8%
Graduation Loan BULLET	71.8	107.8	129.5	95.6	4.9%	6.7%	6.7%	5.4%
Home Improvement Loan	10.8	14.0	13.1	6.5	0.7%	0.9%	0.7%	0.4%
IFL	41.9	84.3	95.2	79.0	2.9%	5.2%	4.9%	4.4%
Microcredit Loan	999.3	940.6	1039.7	1000.8	68.6%	58.5%	54.0%	56.4%
Solar Energy Loan	0.8	1.5	3.4	9.3	0.1%	0.1%	0.2%	0.5%
Taleem Loan	1.2	0.5	0.2	0.0	0.1%	0.0%	0.0%	0.0%
Rickshaw Loan	0.3	0.0	1.1	2.2	0.0%	0.0%	0.1%	0.1%
TOTAL	1456.1	1607.3	1924.0	1775.4	100.0%	100.0%	100.0%	100.0%

Credit Risk Mitigation Strategies

To mitigate credit risk, CEIP follows a diligent approach to retain existing customers with tested track record and repayment history and gradually increase loan amount with every successive loan cycle. The new clients after going through a more stringent induction process are only offered a pre-decided base minimal amount for every product category; later on once the relationship is established, the financing limit is enhanced for repeat loans. Holistically, the clients with an established credit profile are only offered higher ticket loans during their term. Furthermore, CEIP implemented complete digitization of installment collection mechanism by end-FY23. The following table depicts the breakup of size wise composition of loans at end-FY23:

SIZE-WISE COMPOSITION	No. of Clients	Portfolio (In m.)
Up to Rs. 25,000	3,080	36
Rs. 25,000-Rs. 50,000	6,671	153
Rs. 50,001-Rs. 75,000	14,236	489
Rs. 75,001- Rs. 100,000	14,247	742
Rs. 100,000 and Above	4,697	354
Total	42,931	1,775

Implementation of IFRS 9 & its Impact

IFRS-9 has fundamentally changed the financial institutions loan loss impairment method by replacing incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach.

From 1st Jan, 2022, the CEIP has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS-9. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the Effective Interest Rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Sound Asset Quality Indicators

Deferred, Restructured, Rollover (DRR) Portfolio:

By end-FY22, the deferred portfolio pertaining to regulatory relief under Covid-19 decreased sizably to Rs. 57.4m (FY21: Rs. 1.1b) as the scheme matured by end-1QFY21. Under the SECP relief package, the regular/performing borrowers were allowed to reschedule/defer their loans in accordance with the regulator's guidelines. The Institution recovered around 81%of their restructured portfolio and the recovery rate of post-Covid is also recorded noteworthy at 99.67%. The entire outstanding DRR portfolio amounting to Rs. 57.4m is placed under non-performing loans (NPLs) and the probability of recovery of the same is on a lower side. As per the management's estimates provided, maximum of 15% is projected to be recovered indicating that the remaining Rs. 49m will be written off during the ongoing year. Further, given CEIP was not operating in areas affected by recent catastrophic floods, the portfolio loss emanating from the same was negligible. The transition of DRR Portfolio at end-FY22 is presented in the table below:

	Amounts in m
Rollover & restructured Portfolio (DRP) at 31st March, 2021	Rs. 1,105
Amounts recovered till end-HY23	Rs. 893.4
Percentage Recovered	80.9%
Written-off by end-HY23	Rs. 153.7
Classified under NPL at end-HY23	Rs 57.4

On an aggregate basis, with majority of NPLs pertaining to DRR portfolio written-off by end-FY22 coupled with no major infection cases reported in the post-FY21 disbursement, NPLs were recorded lower on a timeline at Rs. 89.1m (FY22: 138.5m; FY21: Rs. 189.4m) at end-FY23. Therefore, in line with decline in quantum in NPLs, the gross and net infection has declined on a timeline to 4.9% (FY22: 6.8%; FY21: 11.6%) and 4.8% (FY22: 3.6%; FY21: 9.1%) by end-FY23.

Furthermore, stemming from overall decline in NPLs and growth in microcredit portfolio coupled with specific decline in write-offs to Rs. 4.8m (FY22: Rs. 124.6m) during FY23, the incremental infection also showcased improvement recorded lower at 1.9% (FY22: 4.1%; FY21: 10.3%); the same demonstrates that CEIP's portfolio quality is sound with no major accumulation of credit risk on its books. On the other hand, the provisioning coverages on both specific and total fronts declined during the outgoing year owing to specific provisioning charge being removed once the write offs are carried out coupled with implementation of IFRS-9 which led to meager 2.7% of the total GLP being categorized under stage-3. It is pertinent to mention that for NPLs falling under stage-1&2 in ECL have minimal provisioning charge; the same has contributed to lower provisioning coverages recorded. In addition to specific provision, CEIP maintains a general provisioning equivalent to 5% of the microcredit portfolio and 2% of the microcredit portfolio under IFL (Interest free Loan) program.

Investment avenues of CEIP are only restricted to term deposit receipts (TDRs) of different maturities amounting to Rs. 55.3m (FY22: Rs. 66.7m; FY21: Rs. 66.2m) with markup ranging from 12.12% to 18% (FY22: 7.05% to 12.80%), held with banks having strong financial strength and sound credit ratings at end-FY23. Therefore, credit risk originating from investment portfolio is considered limited. Moreover, since all investments made by CEIP are short term in nature, no sizable market risk is associated with them.

Liquidity Profile

CEIP's liquidity position has weakened on a timeline basis as reflected by decreasing liquid assets held in relation to outstanding obligations recorded at 16.5% (FY22: 19.1%, FY21: 32.2%) at end-FY23. The reduction is largely attributable to lower funds parked in bank deposits amounting to Rs. 202.4m (FY22: Rs. 294.1b; FY21: Rs. 498m) by end-FY23, the same in turn was an outcome of repayment of long-term loan from PMIC worth Rs. 610m. Resultantly, in absolute terms, liquid assets stood lower at Rs. 257.7m (FY22: Rs. 360.8m; FY21: Rs. 564.1m) at end of the outgoing year; the excess liquidity in the previous years was kept for scheduled repayments of borrowings and for conserving CAR. Nevertheless, given CEIP is non-deposit taking, the Institution does not face the risk of cash calls on deposits, therefore, the current level of liquidity is also adequate.

Improved profitability indictors during the outgoing year

Despite slight dip in spreads, CEIP's profitability indicators exhibited an upward trajectory during the outgoing year on account reduced provisioning expense of Rs. 18.3m (FY21: Rs. 92.6m) incurred as majority of the non-performing portfolio was written-off during FY22. Stemming from reduction in provisioning expense coupled with uptick in income yielded from lending portfolio and slight increase in other income, majorly encompassing core recurring income from profit on bank deposits and debt instruments to Rs. 49.8m (FY21: Rs. 35.6m) , the OSS ratio improved on a timeline to 108.1% (FY22: 99.3%; FY21: 101.5%) during FY23. Although, operating expenses were recorded higher at Rs. 376.0m (FY22: Rs. 325.7) in line with an increase in employee remuneration and travelling costs, OSS ratio still exhibited an adequate cushion during FY23 as income was sufficient to cover core expenses. However, in line with an expansion plan in the pipeline involving

branch additions and staff hiring in the medium term, OSS can come under pressure therefore maintenance of the same at around current levels is considered critical from the ratings perspective.

CEIP's markup bearing assets comprise advances extended to customers and banks deposits. Despite slight decline in quantum of lending portfolio, markup earned on the same increased to Rs. 671.0m (FY22: Rs. 520.9m) primarily due to higher yield on advances recorded at 43.5% (FY22: 36.3%) during the outgoing year; the higher advances yield was in turn a combined outcome of high benchmark rates along with average increase of around 3% in prices across entire product portfolio. Moreover, the income from loan processing fee which is charged at 4% of the loan amount was also recorded higher at Rs. 82.2m (FY22: 73.6m) during FY23; the same is well-aligned with the increase in the average ticket-size. The risk coverage fee remained unchanged; nevertheless, with uptick in service charge and risk coverage fee, the total income reaped from microcredit portfolio increased to Rs. 766.4m (FY22: Rs. 607.9m) during the outgoing year. Moreover, yield on investments improved to 16.3% (FY22: 8.0%) in line with higher benchmark rates recorded during FY23. On the flip side, despite decline in quantum of borrowings, the finance cost augmented to Rs. 357.3m (FY22: Rs. 228.2m) during FY23 owing to policy rates recorded at the highest ever. Subsequently, as a result of prevailing benchmark rates during the outgoing year, cost of funding rose to 22.8% (FY22: 13.7%) during FY23. In view of the respective movements in average return on markup bearing assets and average costs of funds, spreads of the Institution were reported slightly lower at 20.7% (FY22: 22.6%) during FY23.

In line with an increase in the core income, CEIP's bottom line was recorded higher at Rs. 66.3m (FY22: Rs. 10.9m), despite slight decline in microcredit 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. Going forward, the increasing benchmark rates can put a drag on Institution's spread and profitability indicators. Therefore, to combat this concern, the management plans to further increase the product prices by around 2% during the ongoing year. This policy will aid CEIP in passing on the cost of new assets created by aligning the lending rates with the borrowing rates. However, the impact of increase can be assessed over time as higher prices in times of current inflation can lead to increased credit risk owing to additional pressure on client's disposable incomes.

Capital adequacy ratio represents sizeable room for growth:

CEIP 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 lower on a timeline at Rs. 1.6b (FY22: Rs. 1.9b; FY21: Rs. 1.8b) at end-FY23 owing to timely servicing of periodic repayments serviced; the same was also in tandem with slight decline in GLP at FY23. Around 85% of the total Institution's borrowings were acquired from Pakistan Microfinance Investment Company (PMIC). During the outgoing year, an additional loan amounting to Rs. 170m was also procured from PMIC; the facility carries markup charge at 6M-KIBOR plus 3.75% and is repayable in eight unequal quarterly installments in four years

commencing from July'23 and ending on June'25. Moreover, CEIP also has an outstanding funding line amounting to Rs. 1.2b PMIC to fund micro-finance operations; the base-rate of this term finance is set on the first working day of January, April, July and October for the first, second, third and fourth day of calendar year respectively plus 3.75% per annum. The loan is repayable in fourteen unequal quarterly installments commencing from April'22 and ending on Sept'25. Furthermore, the institution also procured an interest free loan to the tune of Rs. 106m from Pakistan Poverty Alleviation Fund (PPAF) to fund the Interest Free Loan product for four years commencing from Jan'20. Moreover, short term borrowings comprise of a running finance facility of Rs. 50m obtained under markup arrangements and is 70% secured against first pari passu of Rs. 43.7m on all present and future current assets of the Institution with 25% margin and 30% of the limit to be secured against lien on term deposits. The markup charge of the facility is locked in at 3M-KIBOR +2.5%.

Being a non-deposit NBFC, the growth objectives of the Institution are always synced with the availability of funding opportunities, therefore, in view of expansion in operations the Institution has been actively pursuing to make new funding arrangements along with enhancement of existing facilities. The Institution has partnered with PMIC to raise capital to the tune of Rs. 3.4b in the next five years. In addition, the management is also negotiating with several international lenders and has a USD 0.3m loan in the pipeline with a 6.5% upfront fee; once the deal is executed the same can have a marginal yet positive impact on the cost of funds.

Limited by Guarantee Company

Given that CEIP 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. 451m (FY22: 384m; FY21: Rs. 373m) by end-FY23. With a decrease in quantum of NPLs coupled with higher reserve funds, NPLs to Tier-I equity decreased notably on a timeline to 18.9% (FY22: 17.1%; FY21: 38.0%) by end-FY23. In terms of Capital Adequacy Ratio (CAR), CEIP is comfortably placed as CAR stood at 28.1% (FY22: 23.5%; FY21: 27.2%), representing sizable room for growth.

CSC Empowerment and Inclusion Programme (CEIP) **Appendix**

FINANCIAL SUMMARY	(amounts in millions)			
BALANCE SHEET	**2020**	**2021**	**2022**	**2023**
Cash and bank balances	308.1	497.9	294.1	202.4
Short term investments	41.3	66.2	66.7	55.3
Service charges receivables	41.2	28.5	47.2	51.7
Net Advances	1361.5	1483.3	1825.4	1689.0
Fixed and Right of Use Assets	77.6	66.2	83.5	71.3
Total Assets	1878.3	2178.2	2356.6	2116.1
Long-term borrowings (Inc. lease liabilities)	1457.6	1603.5	1764.6	1511.0
Short-term borrowings	0.0	150.0	125.0	49.8
Total Borrowings	1457.6	1753.5	1889.6	1560.8
Accrued markup	54.0	39.0	68.6	98.6
Total Liabilities	1521.5	1804.9	1972.3	1665.6
Total Equity	356.8	373.4	384.3	450.6
INCOME STATEMENT				
Net Mark-up Income	198.8	247.4	292.7	313.6
Net Provisioning/ (Reversal)	24.1	52.2	92.6	18.3
Non-Markup Income	59.6	60.1	87.0	95.4
Other Income	45.7	27.0	35.6	49.8
Amortization of deferred credit- grants	14.0	11.7	16.4	11.0
Operating Expenses	230.9	248.0	292.4	335.5
Profit/ (loss) before Tax	29.3	16.6	10.9	66.3
Profit/ (loss) after Tax	29.3	16.6	10.9	66.3
RATIO ANALYSIS				
NPLs	69	189	139	89
Gross Infection %	4.7%	11.6%	6.8%	4.9%
Incremental Infection%	0.0%	10.3%	4.1%	1.9%
Net Infection (%)	3.1%	9.1%	3.6%	4.8%
Total Net Infection	-1.9%	4.4%	2.2%	2.9%
Net NPL's to Tier I Capital	12.5%	38.0%	17.1%	18.9%
Capital Adequacy Ratio (%)	28.4%	27.2%	23.5%	28.1%
Markup in earning Assets (%)	38.1%	31.5%	36.3%	43.5%
Cost of Funds (%)	20.9%	10.8%	13.7%	22.8%
Spreads (%)	17.3%	20.8%	22.6%	20.7%
OSS (%)	104.6%	101.5%	99.3%	108.1%
ROAA (%)	1.7%	0.8%	0.5%	3.0%
ROAE (%)	8.6%	4.5%	2.9%	15.9%
Liquid assets to deposits and borrowings (%)	24.0%	32.2%	19.1%	16.5%
Specific Provisioning Coverage (%)	35.29%	25.18%	52.52%	4.43%
Total Provisioning Coverage (%)	137.49%	65.48%	71.18%	42.89%

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	CSC Empowerment and Inclusion Programme
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** 2/22/2024 / 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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: Entity				
2/22/2024	BBB-	A-3	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Ms. Nabila Nadeem	Head of Operations	4th October 2023
2	Faiza Choudhary	Head of Human Resources	4th October, 2023
3	Mr. Jawad Yousaf Mr. Zeeshan Faridi	CFO Finance Manager	4th October 2023