



The Pakistan Credit Rating Agency Limited

**Rating Report**

**SAFCO Support Foundation**

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

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-May-2020	BBB	A3	Stable	Initial	YES

**Rating Rationale and Key Rating Drivers**

SAFCO Support Foundation ('SAFCO' or the 'Foundation') is a Microfinance Institution (MFI) governed by the Securities & Exchange Commission of Pakistan under Section 42 of the Companies Act, 2017. The Foundation is licensed to operate under NBFC (Establishment and Regulations) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations 2008. It has been in operations since 2009. The key element is that MFIs are not permitted to mobilize deposits, while they are also not backed by any stakeholder equity due to their status of "Companies Limited by Guarantee". These two elements, in combination, provide funding constraints, while they also delimit the boundaries of risk. SAFCO is a not-for-profit organization, hence, the source of funding comprises a) internal generation of profits, b) loans and c) grants. The Foundation's sanguine profitability culminates into integral capital generation at a decent rate. Second major source of funding is borrowings, for which the Foundation majorly relies on local avenues primarily including PMIC, with some portion of foreign lending too. Governance structure takes strength from the body of members and board of directors. The ratings also incorporate the vulnerability in business due to low market share and limited geographical presence. Additionally, the growing impact of economic slowdown lately exacerbated by the global pandemic spread may deteriorate the overall risk profile of the Microfinance Sector, particularly with reference to the quality of assets and risk absorption capacity. Currently, the Institution's financial risk profile displays a comfortable outlook with a decent credit quality and fine profitability margins.

The ratings are dependent on the Foundation's aptness to sustain positive performance indicators amidst growth in business volumes. The ratings would also monitor the impact of technological progression on the operational and risk efficacy of the Foundation. Meanwhile, "Watch" reflects the need to oversee the risk profile of the Foundation against unavoidable challenges, particularly emanating from economic meltdown and repercussions due to Covid-19.

Disclosure	
<b>Name of Rated Entity</b>	SAFCO Support Foundation
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   MFI (Jun-19), Methodology   Correlation Between Long-Term And Short-Term Rating Scale (Jun-19)
<b>Related Research</b>	Sector Study   Microfinance (Sep-19)
<b>Rating Analysts</b>	Jibran Cheema   jibran.cheema@pacra.com   +92-42-35869504

## Profile

**Structure** SAFCO Support Foundation (hereby referred to as “SSF” or “Foundation”) was incorporated in May 2009 as a public company, limited by guarantee, registered under Section 42 of the Companies Ordinance, 1984 (now Companies Act, 2017). It is licensed by the Securities and Exchange Commission of Pakistan, under the Non-Banking Finance Companies Rules, 2003.

**Background** SSF originates from the Sindh Agricultural and Forestry Workers Coordinating Organization (SAFWCO), an NGO, established in 1986. After 25 years of delivering social development services and financial access to the destitute of rural Sindh, the Board of SAFWCO realized that technological and economic development has changed the scope of financial services, therefore they spun-off their microfinance activities into a separate entity i.e SSF.

**Operations** SSF operates at a provincial level with 50 branches in 10 Districts of the Sindh province, with over ~560 employees. The Head office of the Foundation is located in Hyderabad. The loan portfolio consists of a total of nine loan products mainly relating to the following segments; Enterprise, Livestock, Agriculture, SME, Personal, School Improvement and lending specific to emergencies.

## Ownership

**Ownership Structure** Overall control of the Foundation vests with 10 members. All members have deposited a certain amount of guarantee, as per the Companies Act, 2017 requirements.

**Stability** SSF has a proper succession plan in place which is expected to remain, going forward.

**Business Acumen** The members are experienced, having suitable skills to guide the Foundation in the right strategic direction.

**Financial Strength** The probability of the Foundation to get financial support from members is low, since it is registered as a not-for-profit organization and the members do not receive monetary benefits out of the Foundation’s profits.

## Governance

**Board Structure** SSF has a 7 member Board of Directors. All directors are independent, providing objective oversight.

**Members’ Profile** The Board members have extensive experience in the sector. Mr. Rana Abdul Salam, the Chairman, has vast industry knowledge as a result of a 35 year long career as a banker.

**Board Effectiveness** During FY19, 4 Board meetings were held. Attendance recorded during the meetings was good. The Board has 4 sub-committees; Audit Committee, Credit & Risk Committee, Human Resource Committee and the Social Performance Management Committee.

**Financial Transparency** Deloitte Yousuf Adil Chartered Accountants, among the Big 4 audit firms, are the External Auditors of the Foundation. They expressed an unqualified opinion on the financial statements for the year Ended June’19. An internal audit department is in place, which reports to the Audit Committee.

## Management

**Organizational Structure** SSF operations are grouped under nine departments. All departments, report to Mr. Syed Sajjad Ali Shah, the MD, except in case of the Internal Audit Department which directly reports to the Audit Committee.

**Management Team** The management has a mix of diverse skills and experience. Mr. Muhammad Suleman, the CEO, is with the Foundation since 2014. He has a vast working experience of 35 years in different fields. Other members of the management team are adequately qualified and possess a well rounded set of skills.

**Effectiveness** The Foundation has a systematic decision making process. A management committee, having various functions, is in place. It is chaired by the MD and comprises all department heads.

**MIS** The MIS is integrated with all systems like Human Resource Management System, Financial Information System and E-Appraisal. It provides effective information in order to aid quick decision-making and planning.

**Risk Management Framework** A proper risk management policy to manage operational and credit risk is in place. Loan approval process is embedded with respective approval limits enjoyed by each approving authority i.e. Branch Manager, Area Manager, Manager Operations and Credit Committee. 80% of the recovery takes place through Alternate Delivery Channels such as Easy Paisa, HBL Kconnect and Jazz Cash, while the rest is done through credit officers.

**Technology Infrastructure** SSF is investing in its technological infrastructure to increase automation and efficiency in the departments. Further increase in automation would result in expediting the loan recovery process, providing good surveillance and keeping the infection ratio in-check.

## Business Risk

**Industry Dynamics** Pakistan Microfinance Industry comprises 41 microfinance providers including 11 Microfinance Banks (MFBs), 15 Microfinance Institutions (MFIs), 6 Rural Support Programmes (RSPs) and 9 other projects. As at End-Dec’19, the overall industry borrowers stood at ~7.3mln out of which MFIs constitute ~2.5mln active borrowers, representing ~34% of the total market. The industry Gross Loan Portfolio (GLP) clocked at PKR ~305,743mln out of which MFIs represent 20% i.e. PKR ~60,363mln. The Microfinance Industry’s growth has dwindled in the recent past, with challenges not expected to subside in the near future.

**Relative Position** Strong relationship of the Foundation with the borrowers strengthens its position on a provincial scale which is evident from the growth of its active borrowers. As at End-Dec’19, the Foundation held 1.4% of the market share in terms of active borrowers. Considering this and the market share of 0.8% in terms of GLP of the whole industry, the Foundation is considered as a low tier player in the Microfinance sector. The GLP is deemed low compared to peers, but with a healthy projected annual growth, there is potential for market share to improve.

**Revenue** SSF earned an interest income of PKR~610mln in FY19 with an exceptional growth of 79% on a YOY basis (FY18: PKR~341mln). Revenue grew due to enhanced business volumes i.e. active borrowers. Following a similar trend, the Gross Interest Income clocked in at PKR~399mln in 6MFY20.

**Profitability** In 6MFY20, the Foundation posted a net surplus of PKR~125mln (FY19: PKR~101mln, FY18: PKR~85mln). A consistent trend of growth in profitability is noticed, in the respective periods. The bottomline in FY19 improved as a result of higher volumes compared to FY18. While in 6MFY20, it was further complimented by lower provisioning and a rise in other income, mainly comprising exchange gain on foreign currency swaps and profit from bank deposits.

**Sustainability** SSF’s primary objective is to further strengthen its market position in the industry. To achieve the stated objective, the Foundation is developing new finance products. It is to be noted that footprints in the rural areas of Sindh were already present due to the presence of SAFWCO, which has been operating as an NGO. High policy rates and deteriorating economic environment, especially in the wake of epidemic spread, will be the key challenge for the Foundation, going forward.

## Financial Risk

**Credit Risk** The Foundation has set an authority matrix at the branch, area, region and HO level, depending on the loans size. Further, a Credit Committee is in place as the apex body to approve the highest slab of loan size or conflicting issues. The GLP as at End-Dec’19 amounted to PKR~2,357mln (End-June’19: PKR~2,408mln). The Non-Performing Loans ratio as at End-Dec’19 stood at 1.64% (End-June’19: 0.79%). The loan book is fairly diversified, with most concentration in Livestock (~48%) followed by Enterprise (~38%), SME (~6%), Agriculture (~5%) and Personal lending (~4%).

**Market Risk** Market risk is expected to be impacted by the monetary policy and macro instability in the country. High policy rates will increase the financing cost of the Foundation. The investment book of the Foundation comprises short term Term Deposit Receipts (various banks) amounting to PKR~143mln as at End-Dec’19 (End-June’19: PKR~350mln).

**Funding** The Foundation’s funding mix comprises long term loans from both local (82%) and foreign financial institutions (18%). Total debt of SSF as at End-Dec’19 stood at PKR~2,486mln (End-June’19: PKR~2,503mln). Borrowing from PMIC constitutes 72% of the total debt of the Foundation.

**Liquidity** SSF liquidity position has improved during 6MFY20 as the liquidity ratio (Liquid Assets/Borrowings) stood at 34% at End-Dec’19 (End-June’19: 31%). The improvement in liquidity position is led by increase in cash and bank balances.

**Capital Adequacy** SECP has no minimum requirement for MFIs to maintain the Capital Adequacy Ratio (CAR) at a certain level, unlike MFBs. The total funds and reserves as at End-Dec’19 stood at PKR~740mln (End-June’19: PKR~615mln).

**SAFCO Support Foundation**

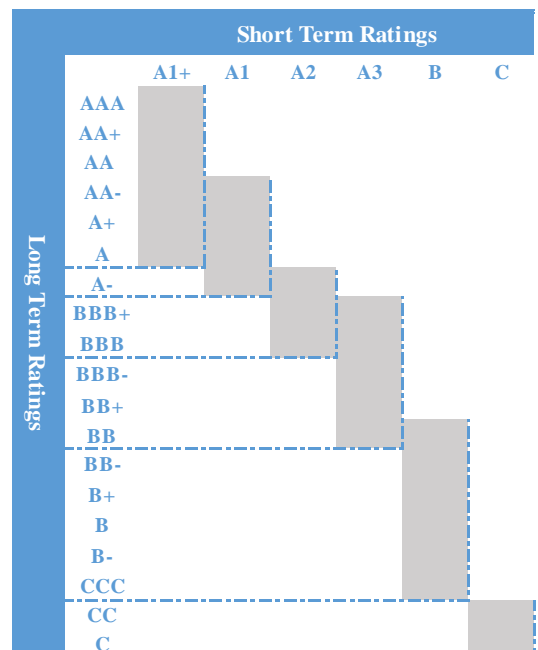
PKR Million

<b>BALANCE SHEET</b>	<b>31-Dec-19</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>
<b>Earning Assets</b>				
Advances	2,318	2,389	1,500	951
Investments	143	350	282	213
Deposits with Banks	599	285	433	319
	<b>3,065</b>	<b>3,032</b>	<b>2,231</b>	<b>1,500</b>
<b>Non Earning Assets</b>				
Non-Earning Cash	105	141	91	36
Net Non-Performing Finances	(83)	(107)	(57)	(37)
Fixed Assets & Others	315	305	222	144
	<b>337</b>	<b>340</b>	<b>255</b>	<b>144</b>
<b>TOTAL ASSETS</b>	<b>3,402</b>	<b>3,371</b>	<b>2,487</b>	<b>1,643</b>
<b>Interest Bearing Liabilities</b>				
Borrowings	2,486	2,503	1,722	997
	<b>2,486</b>	<b>2,503</b>	<b>1,722</b>	<b>997</b>
<b>Non Interest Bearing Liabilities</b>	146	223	221	188
<b>TOTAL LIABILITIES</b>	<b>2,632</b>	<b>2,726</b>	<b>1,943</b>	<b>1,185</b>
<b>EQUITY (including revaluation surplus)</b>	770	645	544	459
<b>Deferred Grants</b>	-	-	-	-
<b>Total Liabilities &amp; Equity</b>	<b>3,402</b>	<b>3,371</b>	<b>2,487</b>	<b>1,643</b>
<b>INCOME STATEMENT</b>	<b>31-Dec-19</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>
Interest / Mark up Earned	399	610	341	246
Interest / Mark up Expensed	(149)	(228)	(102)	(63)
<b>Net Interest / Markup revenue</b>	<b>249</b>	<b>381</b>	<b>239</b>	<b>183</b>
Other Operating Income	15	65	52	39
<b>Total Revenue</b>	<b>265</b>	<b>446</b>	<b>291</b>	<b>222</b>
Other Income	67	45	34	34
Non-Interest / Non-Mark up Expensed	(204)	(335)	(214)	(149)
Pre-provision operating profit	128	156	111	106
Provisions	(3)	(54)	(30)	(12)
Pre-tax profit	125	101	80	94
Taxes	-	-	-	-
<b>Net Income</b>	<b>125</b>	<b>101</b>	<b>80</b>	<b>94</b>
<b>Ratio Analysis</b>	<b>31-Dec-19</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>
<b>Performance</b>				
ROE	37%	18%	17%	22%
Cost-to-Total Net Revenue	77%	75%	73%	67%
Provision Expense / Pre Provision Profit	3%	35%	27%	12%
<b>Capital Adequacy</b>				
Equity/Total Assets	22%	18%	21%	26%
<b>Loan Loss Coverage</b>				
Non-Performing Advances /Gross Advances	1.6%	0.8%	1.1%	1.3%
Loan Loss Provisions / Non-Performing Advances	314%	658%	435%	386%
<b>Funding &amp; Liquidity</b>				
Liquid Assets / Deposits and Borrowings	34%	31%	47%	57%
<b>Intermediation Efficiency</b>				
Asset Yield	26%	23%	18%	16%
Cost of Funds	12%	11%	8%	6%
Spread	14%	12%	11%	10%
<b>Outreach</b>				
Branches	50	49	46	38

## Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.		
<b>D</b>	Obligations are currently in default.		



**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Disclaimer:** PACRA’s ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA’s opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security’s market price or suitability for a particular investor.

### **Rating Team Statements**

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

### **Independence & Conflict of interest**

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent