

## RATING REPORT

### NRSP Microfinance Bank Limited

**REPORT DATE:**

May 02, 2016

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A-	A-2	A-	A-2
<b>Rating Outlook</b>	Positive		Stable	
<b>Rating Date</b>	Apr 29, '16		Apr 28, '15	

#### COMPANY INFORMATION

<b>Incorporated in 2008</b>	<b>External auditors:</b> M/s Deloitte M.Yousaf Adil Saleem & Co
<b>Public Limited Company</b>	<b>Chairman of the Board:</b> Dr. Rashid Bajwa
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Zahoor Hussain Khan
NRSP – 52.06%	
IFC – 16.02%	
KFW – 15.91%	
Acumen Fund – 10.68%	
Acumen Capital Markets – 5.34%	

#### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Micro Finance Institutions  
<http://www.jcrvis.com.pk/images/MicroFinance.pdf>

NRSP Microfinance Bank Limited

## OVERVIEW OF THE INSTITUTION

NRSPB is licensed by SBP to operate as a nationwide microfinance bank under the Microfinance Ordinance, 2001. The bank provides microfinance services to the rural low income sector with an overall objective of mitigating poverty and promoting social welfare. Bank operated through 67 branches at end-FY15.

## RATING RATIONALE

The ratings assigned to NRSP Bank (NRSPB) takes into account prominent market share of the institution, sound asset quality indicators and growing equity base on account of internal capital generation. The bank also benefits from the vast experience of bank's shareholders in the microfinance sector. Sponsor's commitment has been demonstrated in the recent years in the form of both technical knowledge transfer and financial support.

With growth in microcredit portfolio outpacing sector growth, market share of the bank improved to 16.3% at end-FY15 (end-FY14: 14.0%). With loans for "Agri inputs" representing around 90% of gross microcredit portfolio, concentration in the lending portfolio continues to remain high. In addition to delayed detection of weakening of counterparty risk profile, the portfolio is exposed to natural calamities. The Bank insured its portfolio against crop damages during the year; however the loss coverage under insurance cover is limited. The management mitigates the associated risk by limiting portfolio in flood prone areas. In the coming years, the management aim to diversify its microcredit portfolio by increasing the proportion of enterprise and Islamic loans while the share of gold loan is expected to remain modest. The bank plans to offer high ticket individual loan products to community organization members with satisfactory repayment history which is expected to increase the average loan size while also rationalizing group vis-à-vis individual lending. Asset quality indicators have remained sound reflected by an incremental infection of 1.2% during FY15 (FY14: 1.5%). Credit risk officers have been inducted at the branch level as the management aims to gradually shift to decentralize loan approval; this is expected to reduce the turnaround time which is currently high.

The bank generates funding from both deposit and borrowings with share of the former increasing to 63.6% of overall funding mix by end-FY15 (end-FY14: 55.1%). Deposit base increased to Rs. 7.3b (FY14: Rs. 5.2b). With change in mandatory savings policy, deposits under mandatory savings reduced to 11.0% of the deposit base at end-FY15 (end-FY14: 46.5%). Concentration in deposit base continues to remain high with top 50 depositors representing 42.1% (FY14: 37.5%) of the overall deposit base at end-FY15. During the ongoing year, the bank received a subordinated debt from KFW amounting to Rs. 672.4m for a period of 8 years at KIBOR + 3.5%.

Markup income posted healthy growth during FY15 on account of volumetric growth in the microcredit portfolio. Meanwhile, lower cost of funding reflected positively on the spreads of the institution. Overheads of the institutions marginally increased to 8.6% (FY14: 8.5%); however continues to remain lowest among peer MFBs. The bank posted a profit after tax of 459.7m (FY14: Rs. 197.7m).

Owing to seasonal demand of credit, liquidity management poses additional challenges with liquid assets as a proportion of deposit and borrowings varying between 26.3%-38.5% during FY15. The bank manages its liquidity by placing surplus funds in government securities, mutual funds and TDRs; overall risk profile of the investment portfolio remains within prudent limit.

Capital Adequacy Ratio (CAR) declined to 20.9% at end-FY15 (end-FY14: 22.0%) on account of growth in risk weighted assets pertaining to microcredit portfolio. Subordinated debt has been received after the year end which has strengthened the eligible capital of the institution resulting in further improvement of CAR while also providing room to further grow microcredit portfolio.

## NRSP Microfinance Bank Limited

## Appendix I

Financial Summary			
	(amounts in millions)		
<b>BALANCE SHEET</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>	<b>Dec 31, 2013</b>
Total Investments	2,171.8	3,971.2	2,451.2
Net Financing	8,999.2	5,125.2	4,790.4
Total Assets	14,306.5	11,797.6	9,804.0
Borrowings	4,156.9	4,204.2	4,457.3
Total Deposits	7,255.3	5,159.8	3,618.7
Tier-1 Equity	2,534.0	2,075.4	1,387.7
Net Worth	2,544.5	2,126.1	1,450.3
<b>INCOME STATEMENT</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>	<b>Dec 31, 2013</b>
Net Mark-up Income	1,312.9	938.1	784.2
Net Provisioning / (Reversal)	142.5	62.2	65.5
Non-Markup Income	601.4	328.0	376
Operating Expenses	1,121.5	918.2	757.0
Net Profit	459.7	197.7	244.2
<b>RATIO ANALYSIS</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>	<b>Dec 31, 2013</b>
Gross Infection (%)	0.16%	0.98%	0.31%
Provisioning coverage (%)	30.0%	32.0%	49.4%
Net Infection (%)	0.11%	0.67%	0.16%
Incremental Infection (%)	1.19%	1.49%	1.07%
Capital Adequacy Ratio (%)	20.9%	22%	17.5%
Cost of funds (%)	8.06%	9.86%	9.47%
Markup Spreads (%)	14.91%	13.90%	14.06%
OSS (%)	128.4%	114%	119.5%
ROAA (%)	3.5%	1.8%	3.0%
ROAE (%)	19.9%	10.4%	19.2%
Liquid Assets to Total Borrowings (%)	38.5%	63.7%	49.3%

## ISSUE/ISSUER RATING SCALE &amp; DEFINITIONS

## Appendix II

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:** JCR-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.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.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.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.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.

**'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.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-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			
<b>Name of Rated Entity</b>	NRSP Microfinance Bank Limited				
<b>Sector</b>	Microfinance Bank				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	29-April-16	A-	A-2	Positive	Maintained
	28-Apr-15	A-	A-2	Stable	Reaffirmed
	29-Apr-14	A-	A-2	Stable	Upgrade
	30-Apr-13	BBB+	A-3	Positive	Maintained
	12-Apr-12	BBB+	A-3	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	JCR-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.				
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