RATING REPORT

NRSP Microfinance Bank Limited

REPORT DATE:
May 03, 2018

RATING ANALYSTS:

Maimoon Rasheed
Maimoon@jcrvis.com.pk

M. Daniyal
daniyal.kamran@jcrvis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A	A-1
Rating Outlook	Stable		Stable	
Rating Date	*April 27,'18*		*Oct 30, '17*	
Instrument	A		A	
Rating Outlook	Stable		Stable	
Rating Date	*April 27'18*		*Oct 30, '17*	

COMPANY INFORMATION

Incorporated in 2008	**External auditors:** A. F. Ferguson & Co., Chartered Accountants
Public Limited Company	**Chairman of the Board**: Dr. Rashid Bajwa
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Zahoor Hussain Khan
National Rural Support Program (NRSP) – 52.06%	
International Finance Corporation (IFC) – 16.02%	
KfW – 15.91%	
Acumen Fund – 10.67%	
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.

Profile of Chairman

Dr. Rashid Bajwa is the current Chief Executive Officer (CEO) of the National Rural Support Program (NRSP). Mr. Bajwa also holds various honorary positions such as Chairman of Pakistan Microfinance Network, Member of State Bank of Pakistan's committee of Rural Finance and Member of the General Body of the Pakistan Poverty Alleviation Fund and Sindh Rural Support Program.

Profile of CEO

Mr. Zahoor Hussain Khan serves as the President/CEO of NRSPB, where he has led the whole transformation process of NRSP Bahawalpur Region's microfinance operations into a fully regulated and licensed NRSPB. He has vast experience of designing, planning, monitoring, policy formulation and product development for rural microfinance.

Financial Snapshot

Net equity: FY17 – Rs. 4.0b, FY16 – Rs. 3.2b

Net profit: FY17 – Rs. 821.5m; FY16: Rs. 684.8m

RATING RATIONALE

The assigned ratings of NRSP Microfinance Bank Limited (NRSPB) incorporate sizeable loan book, adequate asset quality and sound internal capital generation of the bank. The ratings also take into consideration presence of reputable sponsors carrying experience and understanding of the microfinance sector. Sponsor's commitment has been demonstrated in the recent years in the form of both technical and financial support. JCR-VIS anticipates this support to continue in case the need arises.

Microcredit Portfolio

With growth in active loans and higher average loan size, gross advances portfolio of the bank increased by 58% and amounted to Rs. 20.9b (FY16: Rs. 13.3b) by end-FY17. With the introduction three new products, total credit product suite of the bank increased to 17 (FY16: 14) by end-FY17. Agri inputs continue to remain the flagship product of the bank and constituted around two-thirds of the overall portfolio. Going forward, the management plans to reduce concentration in Agri portfolio to have a more diversified product mix.

Credit Risk

Credit risk emanating from microcredit portfolio is considered sound as indicated by adequate infection ratio. Group based lending continues to remain the forte of the bank. The management must continue to ensure prudent risk management as majority of the portfolio comprise agricultural based loans and entails bullet repayment. Moreover, loan portfolio is concentrated in Punjab signifying low geographical diversification. However, ratings draw comfort from the bank's experience and satisfactory track record in agriculture financing primarily in rural areas. While gross and net infection was lower mainly on account of growth in microcredit portfolio, incremental infection was recorded higher at 1.88% (FY16: 1.17%) due to higher write-offs during the period. As investment avenues of the bank are restricted to government securities and money market mutual funds, hence credit risk emanating from the same is considered low.

Liquidity Risk

With surplus liquidity utilized towards financing activities, liquid assets-to-total deposits & borrowings decreased to 34.6% (FY16: 51.1%). Deposits comprised primary funding source for the bank and increase was primarily manifested in fixed deposits while depositor concentration remained high as top 50 depositors accounted for 63.5% (FY16: 61.2%) of total deposits. As per the management, comfort can be drawn to a certain extent from the nature of some big deposits, which relates to pension funds of related parties. However, JCR-VIS believes that maintenance of adequate liquidity buffer is critical, unless granularity of deposits improve. The management plans to increase granularity by introducing low ticket sticky deposits through its Asaan deposit scheme and branchless banking project, going forward.

Profitability

Despite decrease in mark-up spreads during the period, profitability of the bank improved primarily owing to volumetric increase in the microcredit portfolio; net mark-up income stood higher at Rs. 2.9b (FY16: Rs. 2.0b) in FY17, while non-mark-up income also depicted an upward trajectory. Despite considerable increase in administrative expenses, Operating Self Sufficiency (OSS) remained higher than peer banks at 161.7% (FY16: 165.8%). Accounting for taxation, profit after tax amounted to Rs. 821.5m (FY16: 684.8m) during FY17.

Capitalization

By end-FY17, equity of the bank augmented to Rs. 4.0b (FY16: Rs. 3.2b) on the back of internal capital generation. However, Capital Adequacy Ratio (CAR) of the bank decreased slightly to 18.3% (FY16: 18.6%) by end-FY17 on account of considerable growth in the microcredit portfolio. Given growth plans, internal capital generation would be sufficient to maintain CAR above the minimum regulatory requirement.

NRSP Microfinance Bank Limited — Appendix I

Financial Summary	(amounts in millions)		
BALANCE SHEET	**Dec 31, 2015**	**Dec 31, 2016**	**Dec 31,2017**
Total Investments	2,151.1	6,109.1	2,696.5
Net Financing	8,999.2	13,126.7	20,705.8
Total Assets	14,292.2	26,452.4	33,589.5
Borrowings	4,156.9	4,677.2	3,293.9
Sub-ordinated debt	672.4	672.4	672.4
Total Deposits	7,255.3	16,922.1	23,671.9
Tier-1 Equity	2,534.0	3,202.9	4,012.1
Net Worth	2,544.5	3,203.7	4,013.9
INCOME STATEMENT	**Dec 31, 2015**	**Dec 31, 2016**	**Dec 31, 2017**
Net Mark-up Income	1,312.9	1,981.4	2,937.2
Net Provisioning / (Reversal)	142.5	155.3	383.8
Non-Markup Income	601.4	693.3	871.1
Operating Expenses	1,121.5	1,559.0	2,313.9
Net Profit	459.7	684.8	821.5
RATIO ANALYSIS	**Dec 31, 2015**	**Dec 31, 2016**	**Dec 31, 2017**
Gross Infection (%)	0.16%	0.36%	0.33%
Provisioning coverage (%)	30.0%	25.2%	31.2%
Net Infection (%)	0.11%	0.27%	0.23%
Incremental Infection (%)	1.20%	1.17%	1.88%
Capital Adequacy Ratio (%)	21.3%	18.6%	18.3%
Cost of funds (%)	7.7%	7.9%	8.1%
Markup Spreads (%)	18.4%	16.3%	15.1%
OSS (%)	160.3%	165.8%	161.7%
ROAA (%)	3.5%	3.4%	2.7%
ROAE (%)	19.9%	23.9%	22.8%
Liquid Assets to Total Borrowings (%)	36.4%	51.1%	34.6%

ISSUE/ISSUER RATING SCALE &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

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

(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

'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
Name of Rated Entity	NRSP Microfinance Bank Limited
Sector	Microfinance Bank
Type of Relationship	Solicited
Purpose of Rating	Entity & Instrument Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27-Apr-2018	A	A-1	Stable	Reaffirmed
30-Oct-2017	A	A-1	Stable	Reaffirmed
03-May-2017	A	A-1	Stable	Reaffirmed
28-Oct-16	A	A-1	Stable	Upgrade
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
RATING TYPE: INSTRUMENT				
27-Apr-2018	A			Reaffirmed
30-Oct-2017	A			Reaffirmed
03-May-17	A		Stable	Reaffirmed
28-Oct-16	A		Stable	Upgrade
21-Sep-16	A-		Stable	Final
14-June-16	A-		Stable	Preliminary

Instrument Structure	The issue amount is Rs. 3b with principal repayment in eight quarterly installments over the period of two years beginning from the third month of the issue data. The markup rate on the instrument is 3 months KIBOR plus 2.35%. Security structure of the instrument include a partial cash coverage of upto Rs. 300m (equivalent to 10% of the issue size) which is available throughout the instrument tenor along with first pari passu charge on present and future current asset of the bank with a 25% margin.
Statement by the Rating Team	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.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2018 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.