RATING REPORT

NRSP Microfinance Bank Limited

REPORT DATE:
May 14, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
Rating Outlook	Stable		Stable	
Rating Date	*April 30,'19*		*April 27,'18*	

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.vis.com.pk/kc-meth.aspx

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: FY18– Rs. 4.6b FY17 – Rs. 4.0b, FY16 – Rs. 3.2b

Net profit: FY18– Rs. 590.9m; FY17 – Rs. 821.5m; FY16: Rs. 684.8m

RATING RATIONALE

The assigned ratings of NRSP Microfinance Bank Limited (NRSPB) incorporate sizeable loan book, sound internal capital generation, sustained liquidity indicators and presence of reputable sponsors carrying reasonable 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. However, higher incidence of non-performing loans leading to higher infection ratios as a result of the bank predominantly operating in the agriculture sector has put a drag on the institution's profitability. Going forward, maintenance of asset quality indicators will remain a key rating factor.

Microcredit Portfolio

With growth in active loans and higher average loan size, gross advances portfolio of the bank increased by around 14% and amounted to Rs. 23.3b (FY17: Rs. 20.7b) by end-FY18. Agri inputs remained the flagship product of the bank as it constituted around two-thirds of the overall portfolio. These are bullet structure loans extended to farmers and are backed by group guarantee. Due to the seasonal nature of crops cultivation, demand for such loans is linked to crop cycles. Going forward, the management plans to reduce concentration of Agri portfolio by increasing proportion of other existing products in the mix. In the agri inputs around 36% was disbursed for sugarcane lending which lead to higher incidence of non-performing loans due to slump in the sugar sector. Going forward, management plans to restrict lending in various commodities to diversify its portfolio concentration.

Credit Risk

Credit risk emanating from microcredit portfolio exhibited a s an increasing trend indicated by higher infection ratio, owing to concentration of the same in sugarcane sector, which has plummeted for the past few years. The management must continue to ensure prudent risk management as majority of the portfolio comprises agricultural based loans and entails bullet repayment. However, ratings draw comfort from the bank's experience and satisfactory track record in agriculture financing primarily in rural areas. Moreover, majority of the loan portfolio is concentrated in Punjab signifying low geographical diversification. Given 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 marginally declined during the review period. Deposits remained the primary funding source for the bank; the increase was largely manifested in fixed deposits while depositor concentration remained high as top 50 depositors accounted for 61.9% (FY17: 63.5%) 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 until granularity of deposits is improved, the bank has to maintain adequate liquidity buffer to meet the risk of withdrawals. Going forward, the management plans to increase granularity by introducing low-ticket sticky deposits through branchless banking project.

Profitability

Despite decrease in mark-up spreads during the period, profitability of the bank improved primarily owing to volumetric increase in the microcredit portfolio. Moreover, the non-markeup income supplemented the income generating capability of the bank. Given higher provisioning expense recorded coupled with sizable increase in administrative expenses on account of geographical expansion, Operating Self Sufficiency (OSS) exhibited a downward trend on a timeline basis. Accounting for taxation, profit after tax amounted to Rs. 590.9m (FY17: 821.5m) during FY18.

Capitalization

By end-FY18, equity of the bank augmented on the back of internal capital generation. However, Capital Adequacy Ratio (CAR) of the bank decreased slightly to 16.61% (FY17: 18.3%) by end-FY18 on account of 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**	**Dec 31, 2018**
Total Investments	2,151.1	6,109.1	2,696.5	3,458.7
Net Financing	8,999.2	13,126.7	20,705.8	23,311.1
Total Assets	14,292.2	26,452.4	33,589.5	38,350.6
Borrowings	4,156.9	4,677.2	3,293.9	4,531.8
Sub-ordinated debt	672.4	672.4	672.4	672.4
Total Deposits	7,255.3	16,922.1	23,671.9	26,263.2
Tier-1 Equity	2,534.0	3,202.9	4,012.1	4,598.1
Net Worth	2,544.5	3,203.7	4,013.9	4,607.8
INCOME STATEMENT	**Dec 31, 2015**	**Dec 31, 2016**	**Dec 31, 2017**	**Dec 31, 2018**
Net Mark-up Income	1,312.9	1,981.4	2,937.2	4,105.2
Net Provisioning / (Reversal)	142.5	155.3	383.8	1,124.9
Non-Markup Income	601.4	693.3	871.1	833.3
Operating Expenses	1,121.5	1,559.0	2,313.9	2,881.7
Net Profit	459.7	684.8	821.5	590.9
RATIO ANALYSIS	**Dec 31, 2015**	**Dec 31, 2016**	**Dec 31, 2017**	**Dec 31, 2018**
Gross Infection (%)	0.16%	0.36%	0.33%	2.70%
Provisioning coverage (%)	30.0%	25.2%	31.2%	36.8%
Net Infection (%)	0.11%	0.27%	0.23%	1.7%
Incremental Infection (%)	1.20%	1.17%	1.8%	6.5%
Capital Adequacy Ratio (%)	21.3%	18.6%	18.4%	16.61%
Cost of funds (%)	7.7%	7.9%	8.1%	7.8%
Markup Spreads (%)	18.4%	16.3%	15.1%	13.2%
OSS (%)	160.3%	165.8%	161.7%	110.4%
ROAA (%)	3.5%	3.4%	2.7%	1.6%
ROAE (%)	19.9%	23.9%	22.8%	13.7%
Liquid Assets to Total Borrowings (%)	36.4%	51.1%	34.6%	34.3%

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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		
14-May-2019	A	A-1	Stable	Reaffirmed
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	Nil
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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