RATING REPORT

NRSP Microfinance Bank Limited

REPORT DATE:
May 04, 2021

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	Rating Watch-Developing		Rating Watch – Negative	
Rating Date	*April 29th, '21*		*April 30th, '20*	

COMPANY INFORMATION

Incorporated in 2008	**External auditors:** M/s A. F. Ferguson & Co., Chartered Accountants, a member firm of the PwC network
Public Limited Unlisted Company	**Chairman of the Board**: Dr. Rashid Bajwa **Chief Executive Officer**: Mr. Zahoor Hussain Khan
Key Shareholders (with stake 5% or more):	
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)

VIS Entity Rating Criteria: Micro Finance Banks (June 2019)
https://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 CEO of the National Rural Support Program (NRSP). Mr. Bajwa also holds various honorary positions such as Director of Pakistan Microfinance Network, Member of State Bank of Pakistan's committee of Rural Finance 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
Total assets:
FY20 – Rs. 53.2b
FY19 – Rs. 40.0b.

Total equity:
FY20 – Rs. 5.5b
FY19 – Rs. 4.7b.

RATING RATIONALE

The assigned ratings of NRSP Microfinance Bank Limited (NRSPB) incorporate 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. VIS anticipates this support to continue in case the need arises. The ratings factor in largely maintained loan book during FY20, as the bank scaled-down disbursement targets in response to coronavirus-induced decline in economic activity and loan deferment and restructuring scheme of the State Bank of Pakistan (SBP). The asset quality of the bank continued to remain under pressure with elevated infection levels. The coronavirus-induced deterioration of macroeconomic indicators has further amplified the credit risk; however, its impact in asset quality indicators is yet to be reflected due to portfolio rollover effect. Bottom-line of the bank was mainly supported by continued booking of markup on rollover portfolio, improvement in markup spreads, and rationalization of operating expenses. Incremental deposits were primary invested in government securities and bank placements to beef up liquidity. Due to largely stable risk weighted assets and accumulation of equity base, CAR of the bank improved by end-FY20. In view of continued uncertainty and severity of impact of the pandemic on the economy in general and microfinance sector in particular, the outlook on the ratings will remain vulnerable.

Key Rating Drivers

Business growth momentum disrupted by the outbreak of coronavirus pandemic: Gross loan portfolio of the bank increased to Rs. 29.3b (FY19: Rs. 27.8b), as lackluster economic activity amid pandemic led to a 34% cutback in disbursements during FY20. The impact of decline in number of active borrowers was more than offset by increase in the average loan size. In accordance with the SBP relaxations, the bank deferred/rescheduled loans of Rs. 10.8 during the year, which represented 36.9% of gross loan portfolio at end-FY20. Amount of deferred/rescheduled loans increased further to Rs. 12.3b by March 31, 2021. However, with current recovery ratio of 82.9%, the outstanding amount of deferred/rescheduled loans was recorded at Rs. 6.6b at end-1QFY21. Due to continuing economic effects of coronavirus, the bank has kept conservative disbursement targets and loan portfolio for FY21.

Asset quality indicators remained elevated while the impact of coronavirus pandemic in infection levels is yet to fully be reflected: Even before the advent of coronavirus pandemic, the asset quality of the bank was under pressure for the past few years. However, the coronavirus-induced deterioration of macroeconomic indicators has further amplified the credit risk, as reflected in decline in current recovery ratio to 68.4% (FY19: 82.0%) during the outgoing year. Due to higher non-performing loans (NPLs) recorded in FY20, gross and net infection ratios of the bank increased to 4.2% (FY19: 1.6%) and 2.8% (FY19: 1.1%) respectively by end-FY20. Slight decrease in incremental infection to 5.5% (FY19: 6.3%) was primarily due to lower write-offs in FY20.

The bank has taken various initiatives to curtail infection and maximize collection in FY21. Portfolio has been mapped and loan officers have been deployed in high-risk areas. Frequency of in-person and telephonic follow-ups on due portfolio has been increased. A team has been posted at the head office level to monitor collection performance. The NPL Committee has also been formed at the management level which identifies reasons for NPLs and proposes recovery measures accordingly. Lastly, the bank has changed its product strategy to diversify portfolio in different segments, especially focusing on secured gold and house loans as well as less volatile maize crop financing within the agri inputs segment.

Improvement in profitability supported by continued booking of markup on rollover portfolio and rationalization of administrative expenses: Profit before tax of the bank increased significantly to Rs. 1.1b (FY19: Rs. 87m) mainly on account of notable increase in net markup income, lower administrative expenses as result of staff rationalization, marginal lower loan loss provisions. The impact of decline in fee & commission income due to lower number of loans disbursed was partly offset by higher other income due to higher write-off recovery during FY20. Operational self-sufficiency improved to 113% (FY19: 101%) during FY20. Despite notable decline in interest rates, some decrease in cost of funds was witnessed despite the bank's strategy to grow deposit base considerably. Improvement in yield on markup bearing assets was led by higher return on advances portfolio due to favorable pricing, partially offset by decrease in yield on investment and placements with financial institutions. Resultantly, markup spread of the bank improved to 13.5% (FY19: 12.1%) during FY20. Accounting for taxation, the bank reported net profit of Rs. 793m (FY19: 84m) for the outgoing year.

Net profit:
FY20 – Rs. 793m
FY19 – Rs. 84m.

Improved liquidity and capitalization indicators: Deposits remained the primary source of lending activities during the year. The bank managed to increase its deposit base by 47% during FY20, with growth mainly manifesting in fixed and saving deposits. Slight improvement in deposit mix was witnessed with higher proportion of CASA deposits. Concentration risk remained relatively high, as top-50 depositors accounted for 50.9% (FY19: 49.9%) of deposit base at end-FY20. Some comfort can be drawn by the fact that related-parties constituted 23.0% (FY19: 29.5%) of top-50 deposits. Going forward, the management intends to increase granularity by securing salary accounts of large corporates. Given that incremental deposits were primary invested in government securities and bank placements, liquid assets in relation to total deposits & borrowings improved notably to 41.4% (FY19: 22.6%). Resultantly, advances-to-deposits ratio (ADR) stood lower at 71.1% (FY19: 102.7%) by end-FY20. However, liquidity of the bank is impacted by considerable slowdown in collection of markup which nearly doubled to Rs. 4.3b (FY19: Rs. 2.3b) by end-FY20.

Equity base of the bank amounted to Rs. 5.5b (FY19: Rs. 4.7b) at end-FY20. The bank is required to maintain statutory reserve equal to 20% of net profit till the reserve fund equals the paid-up capital. Afterwards, the contribution to the reserve will be limited to 5% of profit after tax. Statutory reserves accumulated to Rs. 816m (FY19: Rs. 657m) and depositors' protection fund to Rs. 254m (FY19: Rs. 198m). However, net NPLs in relation to tier-1 capital increased to at 14.9% (FY19: 6.6%) by end-FY20. Due to largely stable risk weighted assets and accumulation of equity base, CAR of the bank improved to 16.37% (FY19: 15.4%). With the increase in contribution of secured/low-risk lending and planned Tier II issuance, the management is projecting higher CAR at 17.3% by end-FY21.

NRSP Microfinance Bank Limited — Annexure I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2020**
Cash & balances with SBP and NBP	1,121	1,483	2,868
Balances with other Banks/NBFIs/MFBs	3,699	3,967	4,933
Net Investments	3,459	1,590	8,638
Net Financing	23,311	27,371	27,932
Other Assets	6,761	5,593	8,790
Total Assets	38,351	40,005	53,161
Total Deposits	26,263	26,651	39,285
Borrowings	5,204	4,437	4,068
Other Liabilities	2,275	4,230	4,298
Tier-1 Equity	4,598	4,684	5,498
Net Worth	4,608	4,688	5,510
Paid-Up Capital	1,498	1,498	1,498
INCOME STATEMENT	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2020**
Net Mark-up Income	4,105	4,122	4,923
Net Provisioning / (Reversal)	1,125	1,820	1,726
Non-Markup Income	833	1,165	1,077
Operating Expenses	2,885	3,355	3,115
Profit Before Tax	899	87	1,144
Profit After Tax	591	84	793
RATIO ANALYSIS	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2020**
Gross Infection (%)	2.7	1.6	4.2
Incremental Infection (%)	6.5	6.3	5.5
Provisioning Coverage (%)	36.8	31.5	34.0
Net Infection (%)	1.7	1.1	2.8
Net NPLs to Tier-1 Capital (%)	8.9	6.6	14.9
Capital Adequacy Ratio (%)	16.6	15.4	16.37
Cost of Funds (%)	7.5	10.9	10.6
Markup Spreads (%)	13.2	12.1	13.5
OSS (%)	114	101	113
ROAA (%)	1.6	0.2	1.7
ROAE (%)	13.7	1.8	15.6
Liquid Assets to Total Deposit & Borrowings (%)	34.3	22.6	41.4
Advances to Deposits Ratio (ADR) (%)	88.8	102.7	71.1

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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 — Annexure III

Name of Rated Entity	NRSP Microfinance Bank Limited
Sector	Micro Finance Bank
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
29-04-2020	A	A-1	Rating Watch Developing	Maintained
30-04-2020	A	A-1	Rating Watch Negative	Maintained
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
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	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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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Amjad Iqbal Khan	Head Business	April 6, 2021
Mr. Waqas Ashraf	Head Risk/Compliance	April 6, 2021
Mr. Asif Mahmood	Head Finance	April 7, 2021
Mr. Khalid Masood	Head Internal Audit	April 7, 2021