

RATING REPORT

NRSP Microfinance Bank Limited

REPORT DATE:

April 29, 2022

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	Negative		Rating Watch – Developing	
Rating Date	April 29 th , '22		April 29 th , '21	

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) – 57.40%

International Finance Corporation (IFC) – 16.02%

PROPARCO France – 15.91%

Acumen Fund – 10.68%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Micro Finance Banks (June 2019)

<https://docs.vis.com.pk/docs/Micro%20Finance%20201906.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 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.

RATING RATIONALE

NRSP Microfinance Bank Limited ('NRSPB' or 'the Bank') was incorporated as a public limited unlisted company in 2008 under the Companies Ordinance, 1984. The Bank has a license from SBP to function as a nationwide microfinance bank under the Microfinance Ordinance, 2001. NRSPB is engaged in provision of conventional and Islamic microfinance services to low income rural sector with the ultimate objective of poverty alleviation and promoting social welfare. NRSPB operates through a network of 150 branches as at Dec'21 (Dec'20: 154 branches), including 40 Islamic branches (Dec'20: 40 branches). Registered office of the Bank is situated in Islamabad, while the head-office is based in Bahawalpur.

Key Rating Drivers

Assigned Rating incorporates Sponsor Profile of NRSPB

The assigned ratings of NRSP Microfinance Bank Limited ('NRSPB' or 'the Bank') incorporates presence of reputable sponsors carrying reasonable experience and understanding of the microfinance sector. Sponsor's commitment has been demonstrated in recent years in the form of both technical and financial support. VIS anticipates this support as and when needed.

The outlook on ratings encapsulates moderate portfolio impairment and sizable rollover portfolio, wherein credit quality is uncertain

NPLs of the Bank increased to Rs. 2.1b (Dec'20: 1.2b) as at Dec'21, which led to higher gross infection ratio. Given sizable provisions already taken in the outgoing year, net infection was maintained at 2.7% as at Dec'21 (Dec'20: 2.8%). However, as the same was mainly a result of pro-active write offs, actual impairment can be ascertained from incremental infection, which increased to 8.7% as at Dec'21 from 5.5% as at Dec'20. The Bank's provisioning coverage is notably higher on a timeline and is viewed positively. At present level, credit quality indicators of the portfolio are indicative of moderate credit risk. However, there is a sizable rollover portfolio which is yet to fall due, wherein credit quality is uncertain.

Liquidity buffers in relation to obligations has declined, warranting improvement

The Bank faced significant deposit base attrition in FY21, which was mainly manifested in higher costing institutional deposits. Accordingly, deposit composition has improved on a timeline. Nevertheless, liquid asset coverage of deposits and borrowings dropped slightly to 38.1% as at Dec'21 (Dec'20: 41.4%). Conversely, the Bank's ADR increased to 79.6% as at Dec'21 (Dec'20: 71.1%) mainly due to decline in deposit base. Overall liquidity coverage of deposits & borrowings leaves room for improvement.

Profitability came under stress, albeit is projected to improve in ongoing year

Given the volumetric drop in advances portfolio and the impairment driven drop in yield on advances portfolio the markup income was affected, which was lower by 10% in FY21. Furthermore, the non-markup income also dropped by a fifth, given lower loan processing fees. Despite a very measured uptick in operating overheads the Bank's OSS fell below 100%. In addition the sizable provisioning charges translated in a significantly negative bottom-line. Profitability is projected to post improvement in the ongoing year, which VIS will continue to track.

CAR has fallen below minimum requirement; Capital plan has been reviewed, which VIS will monitor on an ongoing basis

Given adverse profitability, the Bank's CAR has fallen below the minimum requirement of SBP. In order to stay compliant with the same, NRSPB is planning to issue right shares of Rs. 2b after which the CAR is forecasted to come at around 17-18% as of Dec'22.

NRSP Microfinance Bank Limited
Annexure I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	31-Dec-19	31-Dec-20	31-Dec-21
Cash and Bank Balances with SBP and NBP	1,483	2,868	2,612
Balances with other Banks and/NBFIs/MFBs	3,967	4,933	6,807
Lending to Financial Institutions	-	1,495	-
Total Investments	1,590	8,638	6,782
Net Advances	27,371	27,932	27,179
Operating Fixed Assets	2,023	1,674	1,341
Other Assets	3,570	5,621	6,661
Total Assets	40,005	53,161	51,381
Total Deposits	26,651	39,285	34,127
Borrowings	4,437	4,068	8,378
Other Liabilities	4,230	4,298	4,597
Tier-1 Equity	4,684	5,498	4,277
Net Worth	4,688	5,510	4,279
Paid-Up Capital	1,498	1,498	1,498
INCOME STATEMENT	31-Dec-19	31-Dec-20	31-Dec-21
Net Mark-up Income	4,122	4,923	4,199
Net Provisioning / (Reversal)	1,845	1,741	3,988
Non-Markup Income	1,165	1,077	1,086
Operating Expenses	3,354	3,097	3,150
Profit Before Tax	87	1,144	(1,862)
Profit after tax	84	793	(1,232)
RATIO ANALYSIS	31-Dec-19	31-Dec-20	31-Dec-21
Gross Infection (%)	1.6%	4.2%	6.9%
Net Infection (%) Specific	1.1%	2.8%	2.7%
Incremental Infection (%)	6.3%	5.5%	8.7%
Provisioning Coverage (%) Specific	31.5%	34.0%	62.8%
Net NPLs to Tier-1 Capital (%)	6.6%	14.9%	18.4%
Capital Adequacy Ratio (%)	15.5%	16.8%	11.1%
Markup on earning assets (%)	26.5%	25.7%	18.1%
Cost of Funds (%)	11.0%	10.4%	9.5%
Spreads (%)	15.5%	15.1%	8.6%
OSS	95.9%	107.7%	77.4%
ROAA (%)	0.2%	1.7%	-2.4%
ROAE (%)	1.8%	15.6%	-25.2%
Liquid Assets to deposits & borrowings (%)	22.6%	41.4%	38.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS
II

Annexure

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
	<u>RATING TYPE: ENTITY</u>				
	29-Apr-2022	A-	A-1	Negative	Downgrade
	29-Apr-2021	A	A-1	Rating Watch Developing	Maintained
	30-Apr-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
	<u>RATING TYPE: INSTRUMENT</u>				
	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. Asif Mahmood	CFO	April 13, 2022		