



NETWORK MICROFINANCE BANK LIMITED (NMB)

Ratings (MAY 2008)

Network Microfinance Bank Limited

ENTITY	NEW	PREVIOUS
Long Term	BBB	BBB
Short Term	A3	A3

Financial Data

PKR (mln)

	31-Dec-07	31-Dec-06
Total Assets	202.3	114.3
Total deposits	83.3	3.7
Equity	104.3	74.6
Net loss	(20.3)	(7.3)
Equity/Total Asset (%)	51.54	65.24

Analysts

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RATING RATIONAL AND KEY DRIVERS

- The ratings reflect the bank’s limited scale of operations and inherent constraints faced due to the initial stage of operations. At the same time, the ratings recognize the stressed profitability due to high cost structure emanating from the unconventional nature of the business compared to other financial institutions. The focus of the new management is to establish a strong infrastructure including branch network and comprehensive risk management framework. NMB’s prospects are inevitably linked with the success of the strategy.
- The ratings are dependent on the management’s ability to fully implement its business strategy, and establishing a significant presence in the microfinance sector. At the same time, stability and cohesiveness of the core management team would be critical. The inability of the bank to overcome its inherent constraints of limited size, outreach, revenue streams, and human resource in a timely manner would have negative implications for ratings.

ASSESSMENT

- Microfinance sector of Pakistan, though at a nascent stage, has recorded significant growth in the recent period. Although the sector aims to serve a large universe, currently it is reaching only a small portion of the country’s population. The active number of borrowers is 1.5 million, which is targeted to be 3 million by 2010. NMB, pursuing growth initiatives in an evolving industry, is also at the early stages of its operations. The bank’s vision is to provide a complete range of formal banking services to micro entrepreneurs and the under-privileged community engaged in income generating activities in a sustainable manner. Currently, with an average loan size of PKR 15,000, the bank’s customer base comprises more than two thousands clients. Alongwith the head office and four branches, the bank is operating two mobile units and three service centers in low income areas to extend the outreach. The bank offers loans not only for investment in revenue generation sources but also provides financing for durables and home financing mainly related to renovation or extension of existing house.
- Currently the bank is in the initial stage of operations and due to set up phase, its cost structure is high, putting pressure on its bottom line. During 2007, subsequent to change in the bank’s ownership structure and the top management, the main focus was to consolidate the loan book, which remained stagnant on YoY basis. However, with the aim to expand, the management put special emphasis on building requisite infrastructure including risk management systems, human resource and geographical outreach. The outcome of these efforts is evident in the bank’s performance during 1Q08, wherein the loan book has expanded significantly. The management has set aggressive growth targets for 2008. The bank is in the final stages of fulfilling regulatory requirements to expand NMB to provincial level. The management, with its ability to open branches in whole of Sindh province and serve a large customer universe, is confident of achieving its growth targets. Meanwhile, though the expenditure – personnel as well as network related – would remain high, the bank is expected to break-even within 2008. Over the medium-term, the management intends to expand its operations on country wide basis.
- The bank has witnessed infection in its loan portfolio. The bank’s impaired lending to total finances stood at around 7% at end-Mar-08. However, the major part of impairment is fully provided, and the management, in addition to specific provision, is providing general provision at the rate of 5% of the outstanding balance to manage the potential risk of loss. Due to otherwise weak credit quality chances of default are on the higher side and the level of default is highly dependent on the timeliness and intensity of the recovery efforts. In this regard, the management has formulated a detailed credit policy manual comprising guidelines for the risk management. Given the nature of business, characterized by large number of small borrowers, the concentration risk is low but this places added pressure on management to mitigate the potential credit risk through effective post-disbursement monitoring.
- With the recent 50% right issue, the bank’s share capital is now PKR 150mln. The management is in the process of making another right issue to increase the capital to PKR 250mln to meet regulatory requirement for provincial operations. The management has managed to establish sound customer deposit base, which is likely to increase with the branch expansion. This would help the bank to manage its funding requirements.

PROFILE

- NMB, established under the Microfinance Institution Ordinance 2001, is listed on Karachi Stock Exchange. The bank started its operations in January 2005. The main sponsors of the bank are Jahangir Siddiqui & Co. Limited and KASB Group, collectively holding more than 50% of the bank’s equity.
- Mr. M. Moazzam Khan, Chief Executive Officer, is postgraduate from University of Karachi, diplomaed and the fellow member of the Institute of Bankers, Pakistan. He has more than 36 years of banking experience, holding several leading positions at both national and international levels.

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