



The Pakistan Credit Rating Agency Limited

# NRSP MICROFINANCE BANK LIMITED (NRSP)

## RATING REPORT

	INITIAL [APR-17]	PREVIOUS [JUL-16]
<b><u>Entity Rating</u></b>		
Long Term	A	-
Short Term	A1	-
Outlook	Stable	-
<b><u>Instrument Rating</u></b>		
PPTFC	A	A

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1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
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APRIL 2017

**Profile & Ownership**

- NRSP Microfinance Bank Limited (NRSP Bank) commenced operations in Mar11 as a nationwide microfinance bank. The bank operates with 98 branches across Pakistan. Notably, the bank has its head office in Bahawalpur, a key district in Southern Punjab; this places it closer to its target market
- The bank is majority (52%) owned by National Rural Support Program (NRSP). Kreditanstalt für Wiederaufbau (KfW), International Finance Corporation (IFC), and Acumen each have 16% shareholding in the bank
- During CY16, NRSP Bank became the first licensed Islamic micro-lending institution

**Governance & Management**

- The board comprises 9 members including 3 representatives from NRSP, 1 nominee each from IFC, KfW, and Acumen, 2 independent directors and the CEO. Mr. Rashid Bajwa (CEO of NRSP-NGO) is the Chairman. He is also the Chairman of Pakistan Microfinance Network
- Mr. Zahoor Hussain Khan - President and CEO of NRSP Bank - an experienced microfinance banker, is assisted by a qualified management team.
- Islamic Banking, and Strategic Marketing Heads were added in CY16

**Risk Management**

- Loan book has reported significant growth since inception; increased to PKR 13.2bln at end-Dec16 (end-Dec15: PKR 9.1bln)
- Concentration is considered high; Product (Agri Inputs) – 74%, non-collateralized group guarantee loans – 90%; gold backed loans – 0.5%
- The Bank maintains good asset quality to date (PAR - end-Dec16: 0.37%)
- Oracle Flexcube, a core-banking software, implemented. Oracle financials and Oracle HCM are being implemented

**Performance**

- Net interest income registered a growth of ~51% YoY; spreads remained constant
- The cost to total net revenue is on lower side in comparison with industry. The Bank posted a net profit of PKR 685mln during CY16 (up ~49% YoY)
- Going forward, key business initiatives include (i) introduction of branchless banking (BB); bank is working on BB strategy and business plan in collaboration with IFC and KfW, (ii) geographical expansion in alliance with NRSP, (iii) implementation of internet banking, (iv) increasing Islamic Banking

**Funding and Capital**

- Funding mix constitutes deposits (end-Dec16: 76%) and borrowings (end-Dec16: ~24%)
- Deposits increased by 133% on YoY basis in CY16 to PKR 16.9bln; CASA ratio (43%). High Top 20 depositors' concentration (48%)
- The bank received a subordinated debt of PKR 672mln in 1QCY16 from KfW; bullet payment (interest and principal) after 8 years at 6M KIBOR + 3.5%
- Liquid-asset to deposits and borrowings ratio (51%) at end-Dec16
- Adequate CAR (end-Dec16: 19%) as against regulatory requirement of 15%

**TFC Issue:**

- The Bank issued secured and privately placed TFC of PKR 3bln (inclusive of green shoe option of PKR 1bln) for a tenor of 2 years to expand microfinance operation in Jun16; quarterly coupon payments at 3M KIBOR plus 2.35%.
- Security structure comprises pari passu charge on the bank's current assets with 25% margin
- Cash coverage of PKR 300mln throughout the life of instrument. In case any amount is consumed from the said cash to meet any shortfall in repayment of any installment, the Bank is bound to recoup the coverage to agreed amount within specified time
- At end-Dec16, charge against current assets results in 13% cushion for deposits.

**RATING RATIONALE**

The ratings incorporate emergence of the bank as a growing institution, evident from consistent improvement in business volumes and ensuring profitability. The loan book has reported significant growth since inception, catering the needs of ~17% borrowers of the MFB market at end-Dec16. Though the product design of the bank keeps the concentration high, it takes comfort from the prudent strategy of the bank to focus group-lending in rural areas and a sizeable portion of crop linked loans. Moreover, the bank is eyeing diversification through introducing new microfinance products and expanding its Islamic micro-lending division. The healthy asset quality of the bank is exhibited by its low non-performing loans (NPLs); NPLs to gross advances (~0.4%) remains lower than industry (1.4%). The expansion strategy boded well for the bank resulting into enhanced customer outreach evident from the escalated deposit base. This has made the bank a major contributor in the micro-savings and is expected to sustain its position, benefiting from the specified branches introduced for deposit mobilization. The ratings reflect association of NRSP Microfinance Bank with the National Rural Support Programme, the major shareholder, and with the three foreign development organizations - IFC, Acumen, and KfW, providing both technical and financial support to the bank. The Bank is poised towards expansion mainly focusing in untapped rural areas and aims to introduce technology driven banking products in near future.

**KEY RATING DRIVER**

The ratings are dependent on the bank's ability to sustain improving trend in its market position. Given the expansion strategy of the bank, related risks mainly credit quality needs to be monitored carefully. With the anticipated growth in deposits, the management needs to keep a check on the bank's liquidity profile, keeping it compliant with the statutory liquidity requirement.



**NRSP Microfinance Bank Limited**

	PKR mln		
<b>BALANCE SHEET</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
	Annual	Annual	Annual
<b>Earning Assets</b>			
Finances	13,223	9,111	5,252
Investments	6,109	2,132	3,860
Deposits with Banks	4,062	1,565	1,662
	<b>23,394</b>	<b>12,808</b>	<b>10,774</b>
<b>Non Earning Assets</b>			
Non-Earning Cash	1,205	660	334
Net Non-Performing Finances	(96)	(72)	(16)
Fixed Assets & Others	1,950	911	706
	<b>3,058</b>	<b>1,499</b>	<b>1,023</b>
<b>TOTAL ASSETS</b>	<b>26,452</b>	<b>14,306</b>	<b>11,798</b>
<b>Funding</b>			
<b>Deposits</b>	<b>16,922</b>	<b>7,255</b>	<b>5,160</b>
Branch Banking	16,922	7,255	5,160
Branchless Banking	-	-	-
Borrowings	5,350	4,157	4,204
	<b>22,272</b>	<b>11,412</b>	<b>9,364</b>
<b>Non Interest Bearing Liabilities</b>	977	350	307
<b>TOTAL LIABILITIES</b>	<b>23,249</b>	<b>11,762</b>	<b>9,672</b>
<b>EQUITY (including revaluation surplus)</b>	3,203	2,534	2,077
<b>Deferred Grants</b>	1	10	49
<b>Total Liabilities &amp; Equity</b>	<b>26,452</b>	<b>14,306</b>	<b>11,798</b>
<b>INCOME STATEMENT</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
Interest / Mark up Earned	3,221	2,054	1,731
Interest / Mark up Expensed	(1,240)	(741)	(793)
<b>Net Interest / Markup revenue</b>	<b>1,981</b>	<b>1,313</b>	<b>938</b>
Branchless Banking Income (excluding admin expenses)	-	-	-
Other Operating Income	693	601	328
<b>Total Revenue</b>	<b>2,675</b>	<b>1,914</b>	<b>1,266</b>
Other Income	-	-	-
Non-Interest / Non-Mark up Expensed	(1,559)	(1,122)	(918)
Pre-provision operating profit	1,116	793	348
Provisions	(155)	(142)	(62)
Pre-tax profit	960	650	286
Taxes	(276)	(191)	(88)
<b>Net Income</b>	<b>685</b>	<b>460</b>	<b>198</b>
<b>Ratio Analysis</b>	<b>31-Dec-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>
<b>Performance</b>			
ROE	23.9%	19.9%	11.4%
Cost-to-Total Net Revenue	58.3%	58.6%	72.5%
Provision Expense / Pre Provision Profit	13.9%	18.0%	17.9%
<b>Capital Adequacy</b>			
Equity/Total Assets	12.1%	17.7%	17.6%
Capital Adequacy Ratio as per SBP	18.6%	21.3%	21.5%
<b>Loan Loss Coverage</b>			
Non-Performing Advances /Gross Advances	0.4%	0.2%	1.0%
Loan Loss Provisions / Non-Performing Advances	300.3%	594.5%	130.9%
<b>Funding &amp; Liquidity</b>			
Liquid Assets / Deposits and Borrowings	51.1%	38.2%	62.5%
Advances / Deposits	77.6%	124.0%	99.3%
CASA deposits / Total Customer Deposits	43.6%	62.2%	63.9%
<b>Intermediation Efficiency</b>			
Asset Yield	18.5%	18.2%	17.5%
Cost of Funds	7.4%	7.1%	9.1%
Spread	11.2%	11.1%	8.4%
<b>Outreach</b>			
Branches	98	67	58

## CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<b>A1+:</b> The highest capacity for timely repayment.  <b>A1:</b> A strong capacity for timely repayment.  <b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.  <b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.  <b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.  <b>C:</b> An inadequate capacity to ensure timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.	
<b>D</b>	Obligations are currently in default.	

**Outlook (Stable, Positive, Negative, Developing)**  
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

**Rating Watch**  
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

**Suspension**  
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn**  
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

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## Regulatory and Supplementary Disclosure

### Rated Entity

Name of Issuer NRSP Microfinance Bank Limited  
Name of Issue NRSP Bank | TFC  
Sector Microfinance  
Type of Relationship Solicited  
Purpose of the Rating Regulatory Requirement  
 Independent Risk Assessment

### Rating History

Entity Rating	Dissemination Date	Long-term Rating	Short-term Rating	Outlook	Rating Action
	28-Apr-17	A	A1	Stable	Initial

TFC Rating	Dissemination Date	TFC	Outlook	Action
	28-Apr-17	A	Stable	Initial
	29-Jul-16	A	Stable	Initial
	25-Jun-16	A	Stable	Preliminary

### Instrument Details

Nature of Instrument	Size of Issue	Tenor	Trustee	Security
TFC (Privately Placed, Rated & Secured)	PKR 3,000mln (inclusive of Green Shoe Option of PKR 1,000 Million)	2 years	Pak Oman Investment Company Limited	Pari passu charge on the bank's current assets with 25% margin. Cash coverage of PKR 300mln throughout the life of instrument.

### Amortization Schedule

See Annexure A

### Related Criteria and Research

Specific Methodology: Research: Microfinance Institution  
 Microfinance | Viewpoint | Apr-16

### Rating Analysts

Mahina Majid Shahzad Saleem  
[mahina.majid@pacra.com](mailto:mahina.majid@pacra.com) [shahzad@pacra.com](mailto:shahzad@pacra.com)  
 (92-42-35869504) (92-42-35869504)

### Rating Team Statement

#### **Rating Procedure**

Rating is an opinion on relative creditworthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment do not have any beneficial interest, direct or indirect in the rated entity/instrument.

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**Regulatory and Supplementary Disclosure      Annexure A**

Loan Amount (PKR) 3,000,000,000

Tenor (Years) 2 years

Rate 3MK + 2.35% (Assumed Kibor: 6.03%)

PKR mln

Installment	Due Date	Principal	Mark Up	Total Installment	Outstanding
	Jun-16				3,000
1	Sep-16	375	63	438	2,625
2	Dec-16	375	55	430	2,250
3	Mar-17	375	46	421	1,875
4	Jun-17	375	39	414	1,500
5	Sep-17	375	32	407	1,125
6	Dec-17	375	24	399	750
7	Mar-18	375	15	390	375
8	Jun-18	375	8	383	0

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