

The Pakistan Credit Rating Agency Limited

Rating Action

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Applicable Criteria

- Microfinance Institutions Methodology
- Debt Instrument Rating Methodology
- Microfinance | Viewpoint | Mar16

PACRA Assigns Rating to TFC of NRSP Microfinance Bank

PACRA has assigned rating of 'A' (Single A) to privately placed and secured TFC of PKR 3,000mln (inclusive of green shoe option of PKR 1,000mln) issued by NRSP Microfinance Bank Limited (NRSP Bank). This rating denotes a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The TFCs rating derives its strength from underlying entity - NRSP Microfinance Bank. The bank, operational since 2011, has emerged as a growing institution in microfinance banking landscape. The bank is mainly providing agri financing; thus product concentration is significantly high. However, comfort is drawn from the bank's experienced management team with a successful strategy to focus group-lending in rural areas and a sizeable portion of croplinked loans. While pursuing its expansionary agenda, the bank intends to increase its average loan size to bring operational efficiencies. Thus the bank's GLP (PKR 11bln at end-Mar16) is expected to grow at a higher pace to be funded by largely equal mix of deposits and borrowings. Hence, ADR would remain significantly high. Asset quality, including cumulative write-offs, is considered healthy. Nevertheless, it needs to be monitored carefully in growth phase. Going forward, key business initiatives include (i) introduction of technology-driven branchless banking (BB) mainly resulting in low cost deposit mobilization while diversifying revenue stream; the management is working on BB plan in collaboration with a foreign consultant, and (ii) geographical expansion through its own branches to relatively untapped rural areas and strategic alliance with NRSP is also on cards. NRSP Microfinance Bank has a strong ownership structure with NRSP being the major shareholder followed by equal shareholding by three foreign development organizations - IFC, Acumen, and kfw.

TFC security structure comprises pari passu charge on the bank's current assets with 25% margin. Meanwhile, the TFCs would have 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, NRSP Bank is bound to recoup the coverage to agreed amount within specified time.

About the TFC: The bank issued a secured and privately placed TFC of PKR 3bln (inclusive of green shoe option of PKR 1bln) for a tenor of 2 years in Jun16. The issue will have quarterly coupon payments payable at 3-month KIBOR plus 2.35%. Redemption of TFC will be in eight equal quarterly installments starting from 3rd month. The proceeds from the issue will be used to provide the microfinance loans.

About the Bank: NRSP Microfinance Bank Limited (NRSP Bank) commenced operations in Mar11 as a nation level microfinance bank. 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. The bank operates with 67 branches across 25 districts. Notably, the bank has its head office in Bahawalpur, a key district in Southern Punjab; this places it closer to its target market.

NRSP Bank's board comprises 9 members including 3 representatives from NRSP, 1 nominee each from IFC, kfw, and Acumen, 2 independent directors and the CEO. One independent position is currently vacant. The structure of the board and credentials of its members lend strength to governance framework. Mr. Zahoor Hussain Khan - President and CEO - an experienced microfinance banker, is assisted by a qualified management team.

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