



The Pakistan Credit Rating Agency Limited

NRSP MICROFINANCE BANK LIMITED

INSTRUMENT RATING REPORT

	INITIAL [JUN-16]	PRELIMINARY [JUN-16]	REPORT CONTENTS
TFC Certificates (PKR 3,000 mln inclusive of green shoe option of PKR 1,000mln)	A	A	1. RATING ANALYSES 2. FINANCIAL INFORMATION 3. RATING SCALE
Outlook	Stable	Stable	4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

JULY 2016

Profile & Ownership

- NRSP Microfinance Bank Limited (NRSP Bank) commenced operations in Mar11 as a nationwide microfinance 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
- 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

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; One independent position is currently vacant
- Mr. Zahoor Hussain Khan - President and CEO - an experienced microfinance banker, is assisted by a qualified management team

Risk Management

- Loan book has reported significant growth since inception. Loan book increased to PKR 11.1bln at end-Mar16 (end-Dec14: PKR 5.2bln)
- Concentration is considered high; Product (Agri Inputs) – ~90%, non-collateralized group guarantee loans – ~98%
- The bank maintains good asset quality to date. Going forward, pursuing the growth strategy, maintaining the quality of its loan book remains important
- Oracle Flexcube, a core-banking software, implemented

Performance

- Net interest income registered a growth of ~40% YoY; spreads increased
- The cost to total net revenue is on lower side in comparison with industry. The bank posted a net profit of PKR 460mln during CY15 (up ~133% YoY)
- Going forward, key business initiatives include (i) introduction branchless banking (BB); bank is working on BB strategy and business plan in collaboration with IFC and KfW, and (ii) geographical expansion in alliance with NRSP

Funding and Capital

- Funding mix constitutes deposits (end-Dec15: ~64%) and borrowings (end-Dec15: ~36%)
- Deposits increased by ~41% on YoY basis in CY15; CASA ratio (~62%) considered adequate. High Top 20 depositors' concentration
- 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%
- Cushion to liquidity is considered low; liquid-asset to deposits and borrowings ratio (~38%) at end-Dec15
- Adequate CAR (end-Dec15: 21%) 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
- The issue has quarterly coupon payments payable at 3M KIBOR plus 2.35%. Redemption will be in eight equal quarterly installments starting from 3rd month of issue
- 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-May16, charge against current assets results in 41% cushion for deposits. Incorporating TFC issue the net cushion remains at adequate level (28%)

RATING RATIONALE

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 crop-linked 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.



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**Microfinance
Financials [Summary]**

PKR mln

BALANCE SHEET	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
	1QCY16	Annual	Annual	Annual
Earning Assets				
Finances	11,154	9,111	5,252	4,991
Investments	433	2,132	3,860	2,290
Deposits with Banks	999	1,565	1,662	1,680
	12,585	12,808	10,774	8,962
Non Earning Assets				
Non-Earning Cash	368	660	334	227
Net Non-Performing Finances	(91)	(72)	(16)	(39)
Fixed Assets & Others	1,422	911	706	645
	1,699	1,499	1,023	833
TOTAL ASSETS	14,284	14,306	11,798	9,794
Funding				
Deposits	6,540	7,255	5,160	3,619
Branch Banking	6,540	7,255	5,160	3,619
Branchless Banking	-	-	-	-
Borrowings	4,539	4,157	4,204	4,457
	11,078	11,412	9,364	8,076
Non Interest Bearing Liabilities	482	350	307	268
TOTAL LIABILITIES	11,560	11,762	9,672	8,344
EQUITY (including revaluation surplus)	2,717	2,534	2,077	1,391
Deferred Grants	7	10	49	60
Total Liabilities & Equity	14,284	14,306	11,798	9,794
INCOME STATEMENT	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
Interest / Markup Earned	712	2,054	1,731	1,402
Interest / Markup Expensed	(219)	(741)	(793)	(618)
Net Interest / Markup revenue	493	1,313	938	784
Branchless Banking Income (excluding admin expenses)	-	-	-	-
Other Operating Income	133	601	328	376
Total Revenue	627	1,914	1,266	1,160
Other Income	-	-	-	-
Non-Interest / Non-Mark up Expensed	(327)	(1,122)	(918)	(757)
Pre-provision operating profit	300	793	348	403
Provisions	(38)	(142)	(62)	(66)
Pre-tax profit	262	650	286	338
Taxes	(79)	(191)	(88)	(93)
Net Income	183	460	198	244
Ratio Analysis	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
Performance				
ROE	27.8%	19.9%	11.4%	18.6%
Cost-to-Total Net Revenue	52.2%	58.6%	72.5%	31.3%
Provision Expense / Pre Provision Profit	12.6%	18.0%	17.9%	16.3%
Capital Adequacy				
Equity/Total Assets	19.0%	17.7%	17.6%	14.2%
Capital Adequacy Ratio as per SBP	26.9%	21.3%	21.5%	17.5%
Loan Loss Coverage				
Non-Performing Advances /Gross Advances	0.2%	0.2%	1.0%	0.3%
Loan Loss Provisions / Non-Performing Advances	477.0%	594.5%	130.9%	360.7%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	16.2%	38.2%	62.5%	52.0%
Advances / Deposits	168.9%	124.0%	99.3%	132.4%
CASA deposits / Total Customer Deposits	48.3%	62.2%	63.9%	70.5%
Intermediation Efficiency				
Asset Yield	22.4%	17.4%	17.5%	19.1%
Cost of Funds	7.8%	7.1%	9.1%	9.5%
Spread	14.7%	10.3%	8.4%	9.5%
Outreach				
Branches	67	67	58	54



STANDARD 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.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA AA+ AA AA- A+ A A-	<p>Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.</p> <p>Very high credit quality. 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.</p> <p>High credit quality. 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.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
BBB+ BBB BBB-	<p>Good credit quality. 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.</p>	
BB+ BB BB-	<p>Speculative. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>Highly speculative. Significant credit risk. 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.</p>	
CCC CC C	<p>High default risk. 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.</p>	
D	<p>Obligations are currently in default.</p>	

<p>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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p>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’.</p>	<p>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.</p>	<p>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, or e) the entity/issuer defaults.</p>
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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

Dissemination Date	TFC	Outlook	Action
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: Microfinance Institution
Research: Microfinance | Viewpoint | Mar-16

Rating Analysts

Rida Zahoor
rida.zahoor@pacra.com
 (92-42-35869504)

Saira Rizwan
saira.rizwan@pacra.com
 (92-42-35869504)

Rating Team Statement

Rating Procedure

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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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