

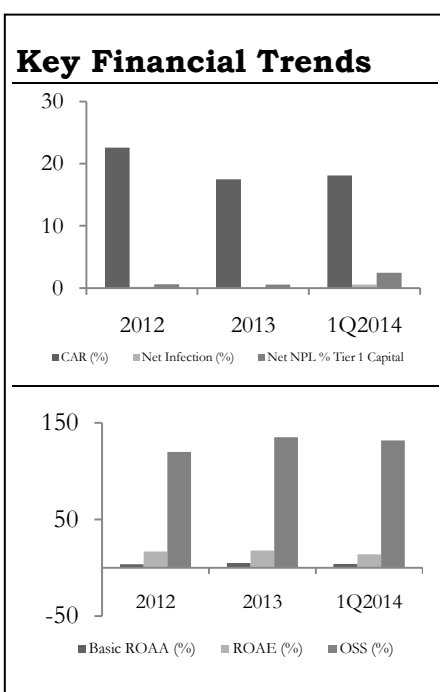
NRSP Microfinance Bank Limited

Chairman: Mr. Rashid Bajwa; President & CEO: Mr. Zaboor Hussain Khan

May 6, 2014

Analysts: Waqas Munir, FRM
Syed Adil Hussain

Category	Latest	Previous
Entity	A-/A-2 Apr 29, '14	BBB+/A-3 Apr 30, '13
Outlook	Stable Apr 29, '14	Positive Apr 30, '13



	2012	2013	1Q14
Net Financings (Advances) (Rs. in m)	3,021	4,790	6,363
Deposits (Rs. in m)	1,831	3,619	3,390
Deposit Cost (%)	5.5%	7.6%	7.4%
Profit / (Loss) (Rs.in m)	167	244	51
Equity (Rs. in m)	1,159	1,388	1,439
CAR (%)	22.6	17.5	18.1
Liquid Assets %			
Deposits & Borrowings	52%	51.7%	22.3%
Net Infection (%)	0.2	0.2	0.6

Rating Rationale

The assigned ratings incorporate improving market share of NRSP Microfinance Bank (NRSPB) as growth momentum in asset base has been higher than that of the industry. Asset growth has also propelled profitability levels in FY13. In addition to profit retention augmenting the bank's capital base, equity injection of Rs. 500m has been approved by the sponsors to support the bank's expansion plans and maintain Capital Adequacy Ratio (CAR) at a comfortable level vis-à-vis regulatory requirement. Capital injection is likely to materialize prior to end-June 2014.

Funding mix of the bank comprises deposits and commercial borrowings, with a higher proportion of the latter. Deposit base of the bank increased by around two times during FY13 with growth manifested in term and saving deposits translating into higher cost of deposits. However, cost of deposit still compares favorably to peers. The bank also retains mandatory savings against loans; proportion of the same in overall deposits has declined on a time line basis. There is room for improvement in the depositor concentration level, which would require time and concerted efforts. Sources of commercial borrowings have been diversified as the bank tapped funding from a multi-lateral organization in the out-going year, in addition to credit lines already available from commercial banks under the Microfinance Credit Guarantee Facility and from Pakistan Poverty Alleviation Fund. There has been considerable variation in liquid assets during the year on account of seasonal demand for credit which poses additional challenges for liquidity management.. Term based borrowings may ease liquidity management till such time the bank is able to achieve greater granularity in deposit mix.

Agricultural lending is the forte of the bank; NRSPB has greater presence in rural areas. Building upon the client base of its major shareholder, NRSP, lending portfolio of the bank has grown at a rapid pace and mostly comprises unsecured, group based agriculture lending. Disbursements are highly seasonal as agricultural loans are linked with crop cycles. While the portfolio features geographic and single product risks, a well tested lending methodology with same having been in use by NRSP for several years mitigates the associated risk to some extent. Asset quality indicators of the bank have so far remained strong.

During the year the bank opened 15 new branches, expanding its network to 54 branches. During FY14, focus will remain on setting up low cost booths which are targeted to garner low cost deposits. While the productivity indicators of the bank have improved on a time line basis, there is room for further improvement.

Following considerable turnover during FY12, top management team has depicted stability. Stability in management remains critical to achieving the strategic blueprint laid down for the organization which envisages rapid growth in the coming years. The bank has mostly resolved the issues that cropped up during migration to the new core banking software, which is now running smoothly.

National Rural Support Program (NRSP) is the major sponsor of the bank with 52% stake while KFW Banking Group - Germany, Acumen Fund, USA and IFC hold 16% shares each. The Board is actively monitoring the performance of the bank. The structure of Board committees could be improved in line with best practices.

Overview of the Institution

NRSPB was incorporated as a public limited company in 2008 under the Companies Ordinance 1984. NRSPB operates through a network of 54 branches (FY12: 39) mainly concentrated in southern Punjab and lower Sindh regions. Financial statements for FY13 were audited by M/s Deloitte M. Yousuf Adil Saleem & Co. **JCR-VIS**

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
29-Apr-14	A-	Stable	A-2	Upgrade
30-Apr -13	BBB+	Positive	A-3	Maintained
12-Apr -12	BBB+	Stable	A-3	Initial