

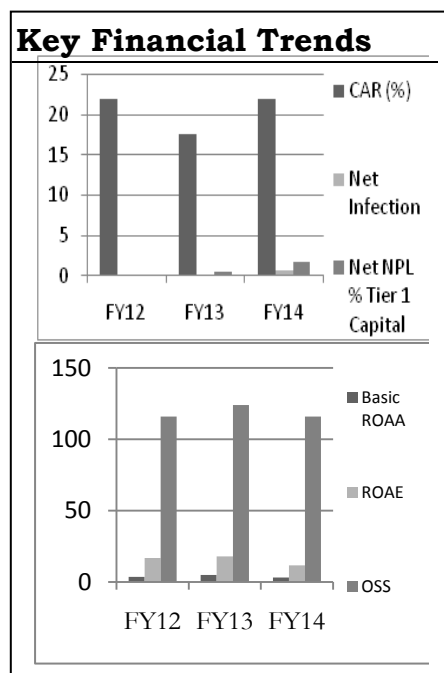
NRSP Microfinance Bank Limited

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

May 5, 2015

Analysts: Waqas Munir, FRM
Maham Qasim

Category	Latest	Previous
Entity	A-/A-2 Apr 28, '15	A-/A-2 Apr 29, '14
Outlook	Stable Apr 28, '15	Stable Apr 29, '14



	2012	2013	2014
Net Financings (Advances) (Rs. in m)	3,021	4,790	5,125
Deposits (Rs. in m)	1,831	3,619	5,159
Deposit Cost (%)	5.5%	7.6%	7.8%
Profit / (Loss) (Rs.in m)	167	244	198
Equity (Rs. in m)	1,159	1,388	2,075
CAR (%)	22.6	17.5	22
Liquid Assets % Deposits & Borrowings	52%	55%	64%
Net Infection (%)	0.2	0.2	0.7

Rating Rationale

The ratings take into account the proven track record of NRSP Microfinance Bank Limited (NRSPB) in agriculture financing, a strength derived from the experience of bank's major shareholder, National Rural Support Programme (NRSP). The bank has also received financial support from its sponsors. Equity base has strengthened on account of internal capital generation and equity injection. Capital Adequacy Ratio (CAR) is currently in higher than the regulatory requirement, the same is projected to decline in the coming years given bank's growth plans.

Growth in microcredit portfolio during FY14 was lower as compared to sector leading to a decline in market share of NRSPB. Loans for agri inputs remain the forte of the bank; these loans are highly seasonal and are linked to crop cycles. Given that agriculture loans entail bullet repayment, credit risk is considered heightened as detection of weakening in counterparty risk profile may be delayed. However bank maintains close contact with borrowers through regular monthly meetings. Livestock lending which comprised about one-fourth of the Gross Loan Portfolio (GLP) was curtailed to below 5% on account of high infection; overall asset quality indicators remained within prudent limits. Given the modest proportion of gold and enterprise lending, product concentration in the microcredit portfolio is high. In lieu of this, the bank introduced General Loan targeting pensioner and salaried persons with a maximum credit amount of up to Rs. 150,000. Additionally, the bank envisages increasing the share of enterprise lending and plans to initiate Islamic Microfinance Operations; successful execution will require capacity building of staff along with strengthening of internal controls.

The bank generates funding from both deposits and borrowings with share of the latter projected to remain high in the overall funding mix. Deposit base increased to Rs. 5.2b by end-FY14 (FY13: Rs. 3.6b) mainly on account of higher share of TDRs. Given that most of the increase in deposit base came in the last quarter of FY14, the ensuing impact on cost of deposit is expected to be visible during the ongoing year. Mandatory savings are deposited in "Kissan Bachat"; as per policy, each member of CO is required to maintain an individual account as against a group account in the past. In order to meet its future funding requirement, the institution plans to raise commercial borrowings.

Productivity indicators of the institution have improved on a timeline basis; however they are lower in comparison to global benchmarks. Bank plans to shift to decentralize loan approval system is expected to lower the turnaround time; timeline for the same has not yet been finalized. The bank maintains strong pre and post disbursement checks. Internal controls have been further strengthened by inducting Area Managers which are responsible for overall microfinance operations of the branches.

During the year there is considerable variation in the liquidity indicators of the bank with liquid asset as a proportion of deposits and borrowing reported as low as 24.8% at end-1QFY14. This is on account of seasonal disbursement of credit. In view of this, liquidity management of the bank poses additional challenges. Additionally, deposit trends have yet to achieve maturity along with increase in concentration level of deposits witnessed in FY14. The bank has soft launched its ATM services; full scale launch is planned in the ongoing year.

With pricing on loan product remaining unchanged, higher income from loans is a function of growth in the microcredit portfolio. Income from Loan Processing Fee (LPF) decreased owing to lower number of loans disbursed during the year; beginning FY15, the management has increased the LPF for Agri loans. Hiring of additional staff for branch expansion and rationalization of staff salaries to bring them in line with market rates led to a sizeable increase in administrative expenses. In view of this, the bank posted a lower profit during FY14.

Overview of the Institution

NRSPB is licensed by SBP to operate as a microfinance bank under the Microfinance Ordinance, 2001. The bank provides microfinance services to the rural low income sector with an overall objective of mitigating poverty and promoting social welfare. Bank operated through 58 branches at end-FY14 spread across 23 districts of Pakistan. Financial statements for FY14 were audited by M/s Deloitte M. Yousuf Adil Saleem & Co. **JCR-VIS**