

RATING REPORT

NRSP Microfinance Bank Limited

REPORT DATE:

November 03, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A-	A-2
Rating Outlook	Stable		Positive	
Rating Date	October 28, '16		Apr29, '16	
Instrument	A		A-	
Rating Outlook	Stable		Stable	
Rating Date	October 28, '16		June 14, '16	

COMPANY INFORMATION

Incorporated in 2008

External auditors: M/s Deloitte M.Yousaf Adil Saleem & Co

Public Limited Company

Chairman of the Board: Dr. Rashid Bajwa

Key Shareholders (with stake 5% or more):

Chief Executive Officer: Mr.Zahoor Hussain Khan

NRSP – 52.06%

IFC – 16.02%

KFW – 15.91%

Acumen Fund – 10.68%

Acumen Capital Markets – 5.34%

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Micro-Finance Banks (June 2016)

<http://www.jcrvis.com.pk/kc-meth.aspx>

NRSP Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION

NRSPB is licensed by SBP to operate as a nationwide 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 84 branches till end-9MFY16.

RATING RATIONALE

The ratings assigned to NRSP Microfinance Bank Limited (NRSPB) takes into account growing market share of the institution and sustained improvement across key performance areas including asset quality, liquidity and internal capital generation. NRSPB is the third largest microfinance bank in the country. The ratings also take into consideration presence of reputable sponsors carrying experience and understanding of the microfinance sector. Sponsor's commitment has been demonstrated in the recent years in the form of both technical knowledge transfer and financial support.

Net Advances of the bank grew by 37% (FY15: 75%) during 9MFY16 and amounted to Rs. 12.3b. The bank also offers Islamic microfinance. While loan portfolio reflects product concentration, ratings draw comfort from bank's experience and satisfactory track record in agriculture financing primarily in rural areas. Additionally, bank plans to offer high ticket individual loan products to community organization members with satisfactory repayment history. This is expected to rationalize product concentration while also increasing the average loan size. Asset quality indicators of the bank remained sound with incremental infection reported at 0.79% (FY15: 1.2%) at end 9MFY16.

Deposit base increased to Rs. 11.1b (FY15: Rs. 7.3b) at end-9MFY16 and was mainly fuelled by increase in fixed deposits; the same represented 65.1% of the overall deposit base (FY15: 38.5%). During the ongoing year, the bank issued a Privately Placed Term Finance Certificate (PPTFC) amounting to Rs. 3b inclusive of a green shoe option of Rs. 1b with principal repayment in eight equal quarterly installments over the period of two years. The security structure of the instrument features partial cash coverage of up to Rs. 300m (equivalent to 10% of the issue size) which is available throughout the instrument tenor along with first pari passu charge on present and future current assets of the bank with a 25% margin. Mark up rate on the issue is 3-month KIBOR+ 2.35%.

High yielding micro credit portfolio along with declining cost of deposits and growth in earning assets led to significant growth in profitability during the ongoing year. The bank maintains lowest overheads among peer microfinance banks. Profit after tax amounted to Rs. 524.4m (FY15: Rs. 459.7m) during 9MFY16.

Ratings also take into account sound capital levels of the institution with bank maintaining buffer over and above the regulatory Capital Adequacy requirement. Internal capital generation of the bank remains strong with equity of the bank increasing to Rs. 3.1b (FY15: Rs. 2.5b) at end 9MFY16. CAR of the bank stood at 20.7% (FY15: 20.9%) at end 9MFY16. Liquidity profile is supported by adequate liquid assets in relation to deposits and borrowings. Liquid assets to total borrowings were reported at 36.2% (FY15: 38.5%) at end 9MFY16.

JCR-VIS Credit Rating Company Limited

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

NRSP Microfinance Bank Limited

Appendix I

	Financial Summary (amounts in Rs. millions)		
BALANCE SHEET	Sep 30, 2016	Dec 31, 2015	Dec 31, 2014
Total Investments	3,046.1	2,171.8	3,971.2
Net Financing	12,295	8,999.2	5,125.2
Total Assets	20,941	14,306.5	11,797.6
Borrowings	5,487.3	4,156.9	4,204.2
Total Deposits	11,093.5	7,255.3	5,159.8
Tier-1 Equity	3060.5	2,534.0	2,075.4
Net Worth	3062.4	2,544.5	2,126.1
INCOME STATEMENT	Sep 30, 2016	Dec 31, 2015	Dec 31, 2014
Net Mark-up Income	1,553.3	1,312.9	938.1
Net Provisioning / (Reversal)	120.4	142.5	62.2
Non-Markup Income	380.9	601.4	328.0
Operating Expenses	1080.9	1,121.5	918.2
Profit after tax	524.4	459.7	197.7
RATIO ANALYSIS	Sep 30, 2016	Dec 31, 2015	Dec 31, 2014
Gross Infection (%)	0.66%	0.16%	0.98%
Provisioning coverage (%)	79.87%	30.0%	32.0%
Net Infection (%)	0.13%	0.11%	0.67%
Incremental Infection (%)	0.79%	1.19%	1.49%
Capital Adequacy Ratio (%)	20.72%	20.9%	22%
Cost of funds (%)	6.6%	8.06%	9.86%
Markup Spreads (%)	19.2%	14.91%	13.90%
OSS (%)	135.36%	128.4%	114%
ROAA (%)	3.97%	3.5%	1.8%
ROAE (%)	25.0%	19.9%	10.4%
Liquid Assets to Total Borrowings (%)	36.2%	38.5%	63.7%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

JCR-VIS Credit Rating Company Limited

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

REGULATORY DISCLOSURES Appendix III						
Name of Rated Entity	NRSP Microfinance Bank Limited					
Sector	Microfinance Bank					
Type of Relationship	Solicited					
Purpose of Rating	Entity& Instrument Rating					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	28-Oct-16	A	A-1	Stable	Upgrade	
	29-April-16	A-	A-2	Positive	Maintained	
	28-Apr-15	A-	A-2	Stable	Reaffirmed	
	29-Apr-14	A-	A-2	Stable	Upgrade	
	30-Apr-13	BBB+	A-3	Positive	Maintained	
	12-Apr-12	BBB+	A-3	Stable	Initial	
	<u>RATING TYPE: INSTRUMENT</u>					
	28-Oct-16	A		Stable	Upgrade	
	21-Sep-16	A-		Stable	Final	
	14-June-16	A-		Stable	Preliminary	
Instrument Structure	The issue amount is Rs. 3b inclusive of a green shoe option of Rs. 1b with principal repayment in eight quarterly installments over the period of two years beginning from the third month of the issue date. The markup rate on the instrument is 3 months KIBOR plus 2.35%. Security structure of the instrument include a partial cash coverage of upto Rs. 300m (equivalent to 10% of the issue size) which is available throughout the instrument tenor alongwith first pari passu charge on present and future current asset of the bank with a 25% margin.					
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.					
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.					
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