



The Pakistan Credit Rating Agency Limited

## Rating Report

### NRSP Microfinance Bank Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Apr-2022	A	A1	Negative	Maintain	Yes
30-Apr-2021	A	A1	Stable	Maintain	Yes
23-Oct-2020	A	A1	Stable	Maintain	Yes
27-Apr-2020	A	A1	Negative	Maintain	Yes
28-Oct-2019	A	A1	Negative	Maintain	-
29-Apr-2019	A	A1	Negative	Maintain	-
06-Nov-2018	A	A1	Stable	Maintain	-
30-Apr-2018	A	A1	Stable	Maintain	-
31-Oct-2017	A	A1	Stable	Maintain	-
29-Apr-2017	A	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

NRSP Bank reflects good presence across the country with about 150 branches in and around 10 regions. The geographical spread provides strength to the bank. NRSP MFB has been serving increasing number of customers and has cemented its position in the industry amongst the top players of the microfinance sector with ~6.9% share in total gross loan portfolio. Overall performance indicators reflected deteriorated outlook in CY21. Consequently, the Bank's GLP witnessed a slight decline. Asset quality impaired significantly, as deferred book to total GLP was sizeable. Further challenges in recovery and markup suspension led to decreased markup earned. Bottom line of the Bank decreased manifold, depicting a loss of PKR 1,231mln (Profit in CY20: PKR 793mln). Management's commitment to recoup the asset health and consolidate the Bank's position within the stipulated time is an acute necessity. Moreover, since the projected outlook of the Bank indicates absorbing significant cash losses, timely yet matching sponsor support through Equity injections is essential. The sponsors have extended support, both in technical and financial forms, to the Bank historically with expression of explicit intention from NRSP to provide financial support in form of capital injection, as and when required. Further injection of funds is expected in coming years. Though SBP's Relief Packages have come handy to the sector in protecting the credit quality of the players during the previous waves, the out-turn of the situation, and its relative impact on the risk profiles of industry players, including NRSP Microfinance Bank, is yet to unfold in the days to come.

The ratings are dependent upon the out-turn of management's plans to steer the risk profile of the Bank towards improved trajectory. Timely Sponsor Support is imperative. The assigned outlook is reflective of the short-term challenges that the Bank's business and financial risk profile are facing, particularly reflecting in high infection ratio, constrained profitability and erosion in CAR. "Watch" reflects the need to oversee the risk profile of the Bank against unavoidable challenges, going forward.

#### Disclosure

<b>Name of Rated Entity</b>	NRSP Microfinance Bank Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Microfinance Institution Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Microfinance(Sep-21)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504

## Profile

**Structure** NRSP Microfinance Bank Limited ("The Bank") was incorporated as a public unlisted company in October 2008 under Section 32 of the Companies Ordinance, 1984 (now the Companies Act, 2017). The bank commenced nationwide operations in March 2011.

**Background** The Bank builds on the experience of its parent institution - National Rural Support Programme (NRSP) which in 2008, spun-off its Micro Enterprise Development Programme (MEDP) into a separate bank. NRSP Microfinance Bank has an established portfolio of ~316,231 clients.

**Operations** The Bank currently operates with its head office in Bahawalpur, a key district in Southern Punjab, which places it closer to its target market. The Bank is operational through a countrywide branch network of 150 branches including 42 Islamic branches as of Dec 31, 2021. A wide range of financial services is offered by the bank including micro-lending, micro-insurance, Islamic banking products and deposits to the financially excluded individuals living in both urban and rural areas of Pakistan.

## Ownership

**Ownership Structure** The Bank is a subsidiary of National Rural Support Program (NRSP) with its shareholding of 57.40%. Other institutional shareholders include International Finance Corporation (IFC) (16.02%), PROPARCO (15.91%) and Acumen (10.68%).

**Stability** Continued sponsor support accompanied by stable ownership pattern, since inception, bodes well for the bank.

**Business Acumen** NRSP – a nonprofit organization – established in 1991, is an autonomous body limited by government guarantee. It is the largest Rural Support Program in the country in terms of outreach, staff and development activities. Other sponsors including; IFC - a member of the World Bank Group and Acumen - incorporated in 2001, share the common purpose to develop under privileged societies of developing economies and encourage financial inclusion.

**Financial Strength** Good financial position of sponsors strengthens the financial muscle of the bank.

## Governance

**Board Structure** The overall control of the Bank vests in a seven member board of directors (BOD), including the CEO. The Chairman of the Board is Mr. Rashid Bajwa and Mr. Zahoor Hussain Khan is the CEO/President of the bank. One independent director is part of the Board.

**Members' Profile** The directors are experienced professionals having exposure in various sectors, including the microfinance industry.

**Board Effectiveness** The Board of directors is branched into three sub-committees namely (i) Audit (ii) Remuneration & Compensation and (iii) Operational Risk and Policy. These committees ensure effective oversight of the bank's affairs and strengthens the Board's governance role.

**Transparency** M/S A.F. Ferguson & Co. are the external auditors of the bank. The auditor has expressed an unqualified opinion on the financial statements of CY21.

## Management

**Organizational Structure** The bank has divided its organization structure in ten departments with each department head reporting directly to the CEO, while the head of the internal audit department reports to the Audit Committee.

**Management Team** Mr. Zahoor Hussain Khan – the President and CEO – carries over 23 years of experience in banking and finance and has been associated with the group for long. The CEO is assisted by an experienced management team.

**Effectiveness** To ensure effectiveness of the operations, the bank has three management committees in place, namely; i) Operations and Risk Management Committee (ORMC), ii) Asset Liability Committee (ALCO) and iii) IT Steering Committee.

**MIS** Detailed MIS reports are generated to support the senior management in timely and effective decision making. MIS includes reports pertaining to disbursements, repayments, recoveries, deposits, and compliance.

**Risk Management Framework** The bank has instituted policies for assessing credit worthiness of loan applicants, which is paramount to its business model. Recently, the bank has particularly steered its focus towards consolidating its position through adopting more stringent and efficient risk control mechanisms.

**Technology Infrastructure** The bank uses Oracle Flexcube as its core banking software; implemented since 2012. Back-to-back support contract from Oracle is directly in place to ensure smooth system run.

## Business Risk

**Industry Dynamics** Pakistan Microfinance Industry (MFI) comprises of 50 microfinance providers including 30 microfinance institutions (MFIs). During CY21, active borrowers of the industry exceeded pre-COVID figure to 8.1 million borrowers after recording growth of 16% compared to CY20. Similarly, the GLP surpassed PKR 390 billion during CY21, an increase of 21% compared to CY20. The growth in active borrowers and GLP continues to be driven by the MFB peer group as they managed to add over one million clients and PKR 52 billion in GLP. NBMFC peer group also contributed to portfolio growth with an addition of PKR 16.7 billion. In case of MFBs, PAR > 30 days increased to 5.1% (CY20: 3.3%) on account of expiration of loan deferment period allowed by SBP. However, the PAR > 30 days of MFIs recovered to report at 2.9% in CY21 (CY20: 4.7%).

**Relative Position** The bank catered to 3.8% of the borrowers in microfinance industry (including MFIs, RSPs and other projects) as at End-Dec'21, grabbing a 7% share of the market in terms of Gross Loan Portfolio (GLP).

**Revenue** Interest/Mark up income of the Bank decreased by 9.7% to PKR 7,989mln during CY21 (CY20: PKR 8,852mln). Consequently, net interest income also witnessed a decline by 14.7% to PKR 4,199mln (CY20: PKR 4,923).

**Profitability** The bank's net profitability decreased manifold to report a loss of PKR 1,232mln (Profit in CY20: PKR 793mln). This was due to higher provisioning expense of PKR 3,988mln (CY20: PKR 1,741mln) and decrease in net interest income.

**Sustainability** The microfinance industry has notably absorbed the effect of macroeconomic instabilities in its portfolio in the shape of slumped growth and elevated Portfolio at Risk (PAR). NRSP MFBs, in terms of affect absorption, have been on the higher end, due to their product mix concentration and other factors. Moreover, the effect of Covid-19 has put pressure on the growth prospects, liquidity and future infection of the loan book, of all industry players. In the short horizon, the bank therefore, plans on devising strategies to regain its credit quality and pace of growth in business volumes to reiterate its stability in the market.

## Financial Risk

**Credit Risk** The bank's loan book is primarily concentrated in non-collateralized loans. As at End-Dec'21, the GLP witnessed muted growth to PKR 30,848mln (End-Dec'20: PKR 29,290mln). Advances continued to be dominated by Agri Input Loans (~47%), followed by MicroEnterprise Loans (~20%) and Livestock Loans (~10%). The bank's infection ratio rose to 6.9% (End-CY20: 4.2%), mainly as a result of increasing NPLs to PKR 2,122mln (End-Dec'20: PKR 1,242mln).

**Market Risk** During CY21, the Bank's investment book slightly decreased by 21.5% to PKR 6,782mln (CY20: PKR 8,638mln).

**Funding** The bank's funding is majorly fueled through deposits, which primarily consists of time deposits (58%). Out of the total deposit base of the bank amounting to PKR 34,127mln as at End-Dec'21 (End-Dec'20: 39,285mln), Islamic banking deposits constitute 23%. The bank's advances to deposits ratio (ADR) fell to 79.6% (EndCY20: 71%), representing fall in deposit base.

**Cashflows & Coverages** Liquidity profile improved slightly during CY21 as the bank's liquid assets-to-deposits and borrowings ratio rose to 38.1% (End-Dec'20: 37.9%). The bank regularly monitors its liquidity through its Asset and Liability Management Committee (ALCO).

**Capital Adequacy** Capital adequacy ratio (CAR) of the bank stood at 11.1% as at End-Dec'21 (End-Dec'20: 16.4%). Cautious management action is necessitated, to inject capital into the bank in order to keep the CAR above the regulatory benchmark.



PKR mln

NRSP Microfinance Bank  
Unlisted Public Company

Dec-21	Dec-20	Dec-19	Dec-18
12M	12M	12M	12M

## A BALANCE SHEET

1 Total Finances - net	28,726	28,048	27,610	23,432
2 Investments	6,782	8,638	1,440	3,322
3 Other Earning Assets	7,703	7,320	3,946	6,128
4 Non-Earning Assets	9,717	9,271	6,957	5,289
5 Non-Performing Finances-net	(1,547)	(115)	52	180
<b>Total Assets</b>	<b>51,381</b>	<b>53,161</b>	<b>40,005</b>	<b>38,351</b>
6 Deposits	34,127	39,285	26,651	26,263
7 Borrowings	8,378	4,068	4,484	5,278
8 Other Liabilities (Non-Interest Bearing)	4,597	4,298	4,183	2,201
<b>Total Liabilities</b>	<b>47,102</b>	<b>47,651</b>	<b>35,318</b>	<b>33,743</b>
<b>Equity</b>	<b>4,274</b>	<b>5,498</b>	<b>4,684</b>	<b>4,598</b>

## B INCOME STATEMENT

1 Mark Up Earned	7,989	8,852	7,524	6,332
2 Mark Up Expensed	(3,790)	(3,929)	(3,402)	(2,226)
3 Non Mark Up Income	1,086	1,077	1,165	833
<b>Total Income</b>	<b>5,286</b>	<b>6,000</b>	<b>5,287</b>	<b>4,938</b>
4 Non-Mark Up Expenses	(3,160)	(3,115)	(3,355)	(2,885)
5 Provisions/Write offs/Reversals	(3,988)	(1,741)	(1,845)	(1,155)
<b>Pre-Tax Profit</b>	<b>(1,862)</b>	<b>1,144</b>	<b>87</b>	<b>899</b>
6 Taxes	631	(351)	(3)	(308)
<b>Profit After Tax</b>	<b>(1,232)</b>	<b>793</b>	<b>84</b>	<b>591</b>

## C RATIO ANALYSIS

### 1 Performance

Net Mark Up Income / Avg. Assets	8.0%	10.6%	10.5%	11.4%
Non-Mark Up Expenses / Total Income	59.8%	51.9%	63.5%	58.4%
ROE	-25.2%	15.6%	1.8%	13.7%

### 2 Capital Adequacy

Equity / Total Assets (D+E+F)	8.3%	10.3%	11.7%	12.0%
Capital Adequacy Ratio	11.1%	16.4%	15.4%	16.6%

### 3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	38.1%	37.9%	22.1%	25.8%
(Advances + Net Non-Performing Advances) / Deposits	79.6%	71.1%	103.2%	89.4%
Demand Deposits / Deposits	10.3%	7.4%	8.5%	6.2%
SA Deposits / Deposits	31.2%	30.6%	23.7%	20.2%

### 4 Credit Risk

Non-Performing Advances / Gross Advances	6.9%	4.2%	1.6%	2.7%
Non-Performing Finances-net / Equity	-36.2%	-2.1%	1.1%	3.9%

**Credit Rating**

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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	<b>Very high credit risk.</b> 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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**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’.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**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.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
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- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

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(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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