



The Pakistan Credit Rating Agency Limited

Rating Report

National Rural Support Programme

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Jul-2023	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating reflects NRSP's significant contributions to poverty reduction, rural empowerment, and inclusive growth objective in Pakistan. With a robust track record of implementing impactful social development projects and fostering financial inclusion, NRSP has established itself as a trusted and reliable partner in the rural development space. The Rating also acknowledges the organization's strong governance and presence of federal secretaries on the board. The strength of NRSP's governance structure lies in its esteemed body of members and board of directors, comprising reputable individuals. Their expertise and reputation contribute to the robustness of the organization's governance framework. NRSP's continued enhancement in business volumes, good management practices, and asset quality further strengthen its business profile in the rapidly growing microfinance sector. Supported by prudent financial management, diversified funding sources, and effective risk management systems, NRSP maintains a strong financial position. The rating also takes into account NRSP's extensive geographic presence in 72 districts across all four provinces of Pakistan, including Azad Jammu and Kashmir. This wide reach enhances NRSP's ability to effectively serve diverse communities and implement impactful initiatives. The organization is supported by a strong force of field officers, further strengthening its operational capabilities. As at FY22, NRSP's equity stood at PKR 12,233mln, and the organization reported a profit after tax of PKR 1,316mln. Furthermore, NRSP's micro lending portfolio reached PKR 21,440mln.

The ratings are contingent on NRSP's ability to maintain its asset quality and sustain growth in business volumes. The impact of technological advancements on the NRSP's operational efficiency, performance of its investment book and risk management remain essential factors. The sustainability of improved margins will be crucial going forward.

Disclosure

Name of Rated Entity	National Rural Support Programme
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Microfinance Institution Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Microfinance(Sep-22)
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Profile

Structure National Rural Support Programme (NRSP), is a registered not-for-profit organization established on November 2, 1991. It operates as a Public Company Limited by guarantee.

Background NRSP is Pakistan's leading microfinance and development organization, Government of Pakistan provided the seed Capital. It empowers rural communities to combat poverty through impactful initiatives and dedicated staff.

Operations NRSP, licensed for Investment Finance Services under NBMFC, utilizes diverse programmatic tools for sustainable development, including training, micro-credit, infrastructure development, and more. Operating in 72 districts across Pakistan, including Azad Jammu and Kashmir. NRSP engages with over 3.8 million households and 246,906 Community Organizations.

Ownership

Ownership Structure NRSP is a non-profit Company operating without share capital. Initially funded by the Government of Pakistan, it now operates with a 16-member body consisting of 10 board members and 6 general body members.

Stability NRSP members provide a guarantee and are selected based on expertise. Directors serve for three years, while members have no fixed tenure unless they voluntarily resign.

Business Acumen The members bring a wealth of industry expertise to the organization. Comprising retired civil service professionals, educationists, and development experts, they possess extensive experience in the field of development, demonstrating a robust business acumen.

Financial Strength NRSP operates under a unique structure that differs from traditional companies. Therefore, the conventional concept of sponsors' willingness and ability to support the Company in times of need does not apply in this case. Since the members of NRSP do not derive any financial benefits from the organization's surplus profitability, their willingness to provide financial support during challenging times is not relevant or may be limited.

Governance

Board Structure NRSP's governing body comprises ten Board of Directors, three ex-officio directors, and three independent directors, bringing diverse expertise to the organization. NRSP has established the Audit Committee and the Risk Management & Finance Committee to strengthen governance and oversight.

Members' Profile Mr. Shoaib Sultan Khan, a prominent advocate of community-driven development, is the Chairman of NRSP. He has a rich history of pioneering initiatives, including the Aga Khan Rural Support Programme, and has made significant contributions to development programs in Pakistan, India, and South Asia.

Board Effectiveness The board is comprised of a mix of Independent, Non-Officio directors and Non-Executive Directors. Effective oversight is ensured through quarterly board meetings, and proper documentation of meeting minutes is maintained.

Transparency The external auditors of the NRSP, M/s A.F Ferguson & Co., Chartered Accountants have issued an unqualified opinion on the NRSP's financial statements for the year end-Jun22.

Management

Organizational Structure NRSP has implemented a hierarchical organizational structure to manage its expanding operations and ensure proper segregation of responsibilities. To monitor management performance, the NRSP has established six management committees.

Management Team Dr. Rashid Bajwa, CEO of NRSP, is a seasoned professional with over 30 years of experience in poverty alleviation and development. His background in civil service and policy planning brings valuable expertise to the organization.

Effectiveness NRSP holds regular management committee meetings to address challenges, mobilize resources, assess projects, plan for the future, manage reinsurance and claims, and discuss financial and non-financial matters.

MIS NRSP has integrated Mango ERP into its system, a specialized solution for microfinance institutions. It automates and streamlines key processes such as loan management and client servicing.

Risk Management Framework NRSP has a robust credit risk control framework in place to effectively manage and mitigate credit risks. It adopts a proactive approach through comprehensive policies and procedures.

Technology Infrastructure NRSP prioritizes technological advancements to improve efficiency and automation, ensuring faster loan recovery, robust surveillance, and effective risk management in the microfinance industry.

Business Risk

Industry Dynamics Pakistan Microfinance Industry (MFI) comprises of 50 microfinance providers including 30 microfinance institutions (MFIs). Active Borrowers continued the increasing trend as 8.5mln borrowers were achieved during CY22, an increase of ~5.6% compared to CY21. Similarly, the GLP surpassed PKR 448bln during CY22, an increase of ~26.1% compared to the GLP in CY21. Further analysis explains the major contribution in the growth of active borrowers and GLP was contributed by the MFB peer group where Mobilink MFB was at the top of list due to significant adoption of digital credit and a greater outreach to customer base. NBMFCs peer group also contributed to the increase by adding 94,000 active borrowers and PKR 2.6bln in GLP. In case of MFBs, PAR > 30 days slightly increased to ~5.3% (CY21: ~5.2%). However, the PAR > 30 days of MFIs recovered to report at ~4.1% in CY22 (CY21: ~5.5%).

Relative Position NRSP is a key participant in the Microfinance sector, with a market share of ~4.5% in terms of Gross Loan Portfolio (GLP) of the whole Microfinance Industry. NRSP is the second largest service provider in terms of active borrowers, with a ~7.8% market share as of Mar'23.

Revenue In FY22, NRSP generated revenue amounting to PKR 5,471mln from its PKR 21,439mln microcredit portfolio, showing an increase of ~7.9% YoY. In the same period, NRSP received a grant income of PKR 4,059mln, showing a remarkable growth of ~31.5% YoY. As of 9MFY23, the income from microcredit operations reached PKR 4,733mln, and the grant income stood at PKR 3,612mln.

Profitability In FY22, NRSP's microcredit operations yielded a net surplus of PKR 1,411mln, showing a significant ~263.3% YoY growth. NRSP's financial expense amounted to PKR 1,292mln, while operating expenses totaled PKR 2,959mln, mainly driven by administrative expenses of PKR 2,777mln. The decrease in operating expenses in FY22 was attributed to reduced provisions and write-offs, indicating a robust credit risk profile.

Sustainability NRSP is dedicated to sustainable development, prioritizing poverty reduction, rural empowerment, and inclusive growth. Through its comprehensive initiatives, NRSP creates positive and lasting impacts, promoting social, economic, and environmental sustainability.

Financial Risk

Credit Risk NRSP demonstrates a strong credit risk profile, evident from its portfolio at risk (PAR) ratio of ~5.3%, showcasing a substantial improvement compared to the previous year (FY21: ~9.2%). NRSP's risk coverage ratio stood at an efficient ~100.0%, indicating comprehensive risk coverage, which was enhanced from the previous year (FY21: ~89.6%).

Market Risk NRSP is not exposed to market risk as its investment portfolio is exclusively focused on TDRs, saving accounts, and investment properties, with no investments made in equity markets.

Funding NRSP relies on financial institution borrowings to fund its micro finance programme. In FY22, the total borrowings decreased by ~3.3% to PKR 17,834mln compared to PKR 18,461mln in FY21 (FY20: PKR 14,406mln). As of 9MFY23, the borrowings stood at around PKR 14,659mln.

Cashflows & Coverages As at 9MFY23, NRSP's Total Finances/Total Asset ratio increased to ~64.3% from ~57.7% in FY22 and ~49.0% in FY21. The Total Finances/Borrowing ratio increased to ~142.1% in 9MFY23 compared to ~114.2% in FY22 and ~91.7% in FY21, indicating a strong coverage position.

Capital Adequacy As at 9MFY23 total equity of NRSP stood at PKR 13,248mln (FY22: PKR 12,233mln, FY21: PKR 10,903). Total Equity to Total Assets ratio reported at ~40.9% in 9MFY23 (FY22: ~34.7%, FY21: ~31.5%). NRSP reported a ROE of ~10.6% as at 9MFY23 (FY22: ~11.4%, FY21: ~3.5%).



PKR mln

National Rural Support Programme
Unlisted Public Limited

Mar-23	Jun-22	Jun-21	Jun-20
9M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	22,113	21,440	18,501	19,379
2 Investments	4,332	3,318	4,121	3,331
3 Other Earning Assets	3,000	7,427	10,353	3,571
4 Non-Earning Assets	4,232	4,173	3,187	4,463
5 Non-Performing Finances-net	(1,287)	(1,079)	(1,563)	(712)
Total Assets	32,391	35,279	34,598	30,033
6 Deposits	-	-	-	-
7 Borrowings	14,659	17,834	18,461	14,406
8 Other Liabilities (Non-Interest Bearing)	4,484	5,212	5,234	4,718
Total Liabilities	19,142	23,046	23,695	19,124
Equity	13,248	12,233	10,903	10,908

B INCOME STATEMENT

1 Mark Up Earned	4,937	5,826	5,317	7,048
2 Mark Up Expensed	(1,595)	(1,335)	(1,080)	(2,613)
3 Non Mark Up Income	3,845	4,193	3,352	2,828
Total Income	7,188	8,684	7,589	7,263
4 Non-Mark Up Expenses	(5,942)	(5,525)	(4,667)	(5,939)
5 Provisions/Write offs/Reversals	(231)	(1,843)	(2,536)	(530)
Pre-Tax Profit	1,014	1,316	386	793
6 Taxes	-	-	-	-
Profit After Tax	1,014	1,316	386	793

C RATIO ANALYSIS

1 Performance

Portfolio Yield	30.6%	29.4%	28.5%	31.8%
Minimum Lending Rate	25.3%	22.5%	32.5%	30.0%
Return on Equity	10.6%	11.4%	3.5%	7.5%

2 Capital Adequacy

Net NPL/Equity	9.7%	8.8%	14.3%	6.5%
Equity / Total Assets (D+E+F)	40.9%	34.7%	31.5%	36.3%
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	11.1%	12.1%	3.5%	7.8%

3 Funding & Liquidity

Liquid Assets as a % of Deposits & Short term Borrowings	28.8%	60.0%	83.9%	66.7%
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	0.0%	0.0%	0.0%	0.0%

4 Credit Risk

PAR 30 Ratio	6.2%	5.3%	9.2%	3.8%
Write Off Ratio	0.2%	1.5%	0.3%	0.3%
True Infection Ratio	6.0%	3.9%	8.9%	3.4%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	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.
AA-	
A+	
A	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.
A-	
BBB+	
BBB	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.
BBB-	
BB+	
BB	Moderate risk. 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-	
B+	
B	High 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.
B-	
CCC	
CC	Very high credit 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.
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):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

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)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

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(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

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(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(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)

Probability of Default

(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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