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
15-Jul-2024	A-	A2	Stable	Maintain	-
17-Jul-2023	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

National Rural Support Programme's (‘NRSP’ or ‘the Company’) ratings reflect its significant contributions to poverty reduction, rural empowerment, inclusive growth, and impactful social development projects in Pakistan. NRSP's governance framework remains strong. The Company has expanded its lending portfolio by leveraging its extensive geographic presence in 72 districts across Pakistan, including Azad Jammu and Kashmir, reaching PKR 23,288mln during 9MFY24, reflecting a growth of ~5%. The microlending portfolio generated a return of ~24%. To fund the operations, NRSP borrows from financial institutions (9MFY24: PKR 15,253mln) and receives grants (9MFY24: PKR 5,852mln) from local (~92%) and foreign (~8%) sources. Supported by sound financial and effective risk management systems, the Company has reduced its non-performing loans by ~55%, during 9MFY24. The bottom line is supported by the investment portfolio (9MFY24: PKR 7,129mln), generating supplementary income. During 9MFY24, NRSP reported an investment income of PKR 838mln, with the majority (~80%) coming from bank deposits and the remainder from investments in subsidiary companies. This supports the Company's liquidity profile. NRSP functions as the holding company for its subsidiaries, which are currently in their growth phases and require financial backing. This ongoing support places constraints on NRSP's cash flows, limiting its financial flexibility. NRSP maintains a strong equity base, which has been on an increasing trend through profit accumulation. This enhances the overall financial risk profile of the Company.

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 remains 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 | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Microfinance Institution Rating(Oct-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Microfinance(Sep-23)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Structure National Rural Support Programme ('NRSP' or 'the Company'), registered as a non-profit organization est. on 02-Nov-91, operates as a public company limited by guarantee not having share capital in Pakistan, under the provision of section 42 of the then applicable Companies Ordinance, 1984 (repealed by the Companies Act, 2017).

Background NRSP is Pakistan's leading microfinance and development organization. Initially, the Govt. of Pakistan (GoP) provided the seed capital of PKR 500mln to empower rural communities so as to combat poverty through various initiatives and dedicated staff.

Operations NRSP is licensed as an Investment Finance Service provider under Non-Banking Microfinance Companies (NBMFC) to develope, train and micro lend along with infrastructure development. Operating in 72 districts across Pakistan, including Azad Jammu and Kashmir, NRSP is engaged with over 3.8mln households and 246,906 community organizations.

Ownership

Ownership Structure NRSP is limited by the guarantee of a 16-member body consisting of 10 Board members and 6 general body members.

Stability NRSP members body is selected based on expertise. The BoD serves for three years, while the members have no fixed tenure unless they voluntarily resign. However, stability remains eveident.

Business Acumen The members, comprising retired civil service professionals, educationists, and development experts, possess extensive experience in the field of development and demonstrate 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 includes ten Board of Directors, three Ex-Officio Directors, and three Independent Directors, offering diverse expertise.

Members' Profile Mr. Shoaib Sultan Khan's, the Chairman, pioneering initiatives include: Aga Khan Rural Support Programme, along with contributing in development programs for Pakistan, India, and South Asia.

Board Effectiveness NRSP has established the Audit Committee and the Risk Management & Finance Committee to strengthen governance and oversight. Effective oversight is ensured through quarterly BoD meetings. Proper documentation of meeting minutes are maintained.

Transparency The external auditor, M/s A.F. Ferguson & Co., issued an unqualified opinion on the FY23 financial statements.

Management

Organizational Structure NRSP has implemented a hierarchical organizational structure to manage operations and ensure proper segregation of responsibilities.

Management Team Dr. Rashid Bajwa, the CEO, has over 3 decades of experience in poverty alleviation and development. He is supported by an experienced team.

Effectiveness To monitor management performance, NRSP has established six management committees. Regular management committee meetings are held to address challenges, mobilize resources, assess projects, plan for the future, manage reinsurance and claims, and discuss financial and non-financial matters.

MIS NRSP uses Mango ERP, a specialized solution for microfinance institutions, to automate and streamline key processes like 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 During 1QCY23, the microfinance industry which includes MFIs, MFBs & RSP in Pakistan has shown a growth of 3.7% from 4QCY22 to 1QCY23 in terms of Gross Loan Portfolio (GLP). The GLP stood at PKR 509.6bln during 1QCY23 (4QCY24: PKR 491.3bln). The GLP portfolio of MFI reached PKR 88.528bln with an active borrower base of 2.3mln as of 1QCY23. Currently, in Pakistan, there are 24 dedicated Microfinance institutions primarily operating which provide specialized microfinance services. The portfolio at risk (PAR) > 30 days of MFI has shown an improvement and reduced to 3.0% (4QCY22: 2.0%) mainly on the back of the recoveries in the flood-impacted portfolios. The hyperinflationary environment has also impacted the MFI sector which is evident by a PKR 1.7bln surge in disbursements (1QCY23: PKR 31.8bln; 4QCY22: PKR 30.1bln) and PKR 3,282 hike in average loan size (1QCY23: PKR 59,628, 4QCY22: PKR 56,346).

Relative Position NRSP holds 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-24.

Revenue During FY23, NRSP's microcredit portfolio reported a slight decline to PKR 21,423mln due to portfolio revamping to manage non-performing finances and a decline in demand due to high interest rates (FY22: PKR 21,440mln). Despite this, the portfolio generated a return of ~30%, reporting at PKR 6,476mln, reflecting an ~18% value-driven growth due to high interest rates. During 9MFY24, the microcredit portfolio grew to PKR 23,288mln (9MFY23: PKR 22,113mln) and generated a return of PKR 5,718mln, showing a growth of ~21% (9MFY23: PKR 4,734mln).

Profitability During FY23, NRSP's net markup income grew by ~5% to PKR 4,712mln (FY22: PKR 4,491mln). During 9MFY24, markup income increased by ~28%, reporting at PKR 4,284mln (9MFY23: PKR 3,342mln). Profitability was further supplemented by grant income, which reported at PKR 5,852mln during 9MFY24 (9MFY23: PKR 3,729mln; FY23: PKR 4,873mln; FY22: PKR 4,059mln). During FY23 net income reported at PKR 1,392mln, reflecting a slight uptake (FY22: PKR 1,316mln). During 9MFY24, net income grew by ~34%, reporting at PKR 1,360mln (9MFY23: PKR 1,014mln).

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 ~2.5% as at FY23, showcasing a substantial improvement compared to the previous year (FY22: ~5.3%). NRSP's risk coverage ratio stood at an efficient ~92.2%, indicating comprehensive risk coverage (FY22: ~100). During 9MFY24, NRSP's PAR ratio reported at 2.5% significantly improved during the period (9MFY23: 6.2%).

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 microcredit operations. As of FY23, total borrowings decreased by ~16% to PKR 15,043mln from PKR 17,834mln in FY22, in line with the decline in demand due to high interest rates. However, as of 9MFY24, borrowings increased to PKR 15,253mln (9MFY23: PKR 14,659mln).

Cashflows & Coverages As of FY23, NRSP's Total Finances + Non-Performing Finances/Total Asset ratio increased to ~61.6% from ~57.7% in FY22, due to a decline in non-performing finances. The trend continued in 9MFY24, with the ratio improving to ~69.9% from ~64.3% in 9MFY23. The Total Finances + Non-Performing Finances/Borrowing ratio increased to ~138.9% in FY23 compared to ~114.2% in FY22.as at 9MFY24 the ratio reported at ~148.9% (9MFY23: 142.1%), indicating a strong coverage position.

Capital Adequacy As at FY23, NRSP equity base reflected an uptake of ~12% reporting at PKR 13,674mln (FY22: PKR 12,233mln). As at 9MFY24, the equity base remained in an increasing trend and reported at PKR 15,034mln (9MFY23: 13,248mln). Total Equity to Total Assets ratio reported at ~44.3% in 9MFY24 (9MFY23: ~40.9%, FY23: ~40.3%, FY22: ~34.7%). NRSP reported a ROE of ~12.6% as at 9MFY24 (9MFY23: ~10.6%, FY23: ~10.7%, FY22: ~11.4%).

PACRA

PKR mln

National Rural Support Programme	Mar-24	Jun-23	Jun-22	Jun-21
Unlisted Public Limited	9M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	23,288	21,423	21,440	18,501
2 Investments	3,719	3,490	3,318	4,121
3 Other Earning Assets	3,410	5,736	7,427	10,353
4 Non-Earning Assets	4,107	3,797	4,173	3,187
5 Non-Performing Finances-net	(578)	(531)	(1,079)	(1,563)
Total Assets	33,946	33,914	35,279	34,598
6 Deposits	-	-	-	-
7 Borrowings	15,253	15,043	17,834	18,461
8 Other Liabilities (Non-Interest Bearing)	3,659	5,197	5,212	5,234
Total Liabilities	18,912	20,240	23,046	23,695
Equity	15,034	13,674	12,233	10,903
B INCOME STATEMENT				
1 Mark Up Earned	6,556	7,081	5,826	5,317
2 Mark Up Expensed	(2,272)	(2,369)	(1,335)	(1,080)
3 Non Mark Up Income	5,873	5,096	4,193	3,352
Total Income	10,156	9,808	8,684	7,589
4 Non-Mark Up Expenses	(5,328)	(5,618)	(5,525)	(4,667)
5 Provisions/Write offs/Reversals	(3,468)	(2,798)	(1,843)	(2,536)
Pre-Tax Profit	1,360	1,392	1,316	386
6 Taxes	-	-	-	-
Profit After Tax	1,360	1,392	1,316	386
C RATIO ANALYSIS				
1 Performance				
Portfolio Yield	35.0%	31.4%	29.4%	28.5%
Minimum Lending Rate	32.1%	27.1%	22.5%	32.5%
Return on Equity	12.6%	10.7%	11.4%	3.5%
2 Capital Adequacy				
Net NPL/Equity	3.8%	3.9%	8.8%	14.3%
Equity / Total Assets (D+E+F)	44.3%	40.3%	34.7%	31.5%
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	13.3%	11.4%	12.1%	3.5%
3 Funding & Liquidity				
Liquid Assets as a % of Deposits & Short term Borrowings	34.7%	52.2%	60.0%	83.9%
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	0.0%	0.0%	0.0%	0.0%
4 Credit Risk				
PAR 30 Ratio	2.5%	2.5%	5.3%	9.2%
Write Off Ratio	0.0%	0.6%	1.5%	0.3%
True Infection Ratio	2.5%	2.0%	3.9%	8.9%

Credit Rating

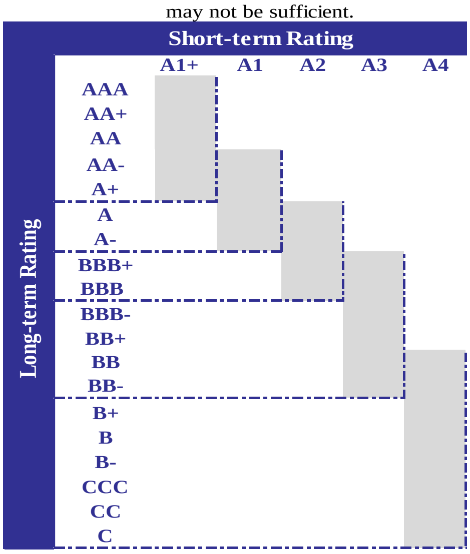
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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)

Conduct of Business
(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).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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)

Independence & Conflict of interest
(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)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information