

Press Release

JCR-VIS Reaffirms Ratings of NRSP Microfinance Bank Limited

Karachi, April 27, 2018: JCR-VIS Credit Rating Company Limited (JCR-VIS) has reaffirmed the entity ratings of NRSP Microfinance Bank Limited (NRSPB) at 'A/A-1' (Single A /A-One). Rating of Privately Placed Term Finance Certificate (PPTFC) has also been reaffirmed at 'A' (Single A). Outlook on the assigned ratings is 'Stable'. The previous rating action was announced on October 30, 2017.

The assigned ratings of NRSPB incorporate sizeable loan book, adequate asset quality and sound internal capital generation of the bank. 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 recent years in the form of both technical and financial support.

With growth in active loans and higher average loan size, gross advances portfolio depicted considerable increase during the outgoing year. However, product concentration is evident as agricultural lending accounts for around two-third of gross portfolio. In this regard, ratings draw comfort from the bank's experience and satisfactory track record in agriculture financing primarily in rural areas. Going forward, the management plans to reduce concentration of agriculture portfolio by increasing proportion of other existing products in the mix. While gross and net infection stood lower, incremental infection was recorded slightly higher during the outgoing year.

With surplus liquidity utilized towards financing activities, liquid assets-to-total deposits & borrowings stood lower by end-FY17. Deposits, the primary funding source of the bank, exhibited considerable growth during the year. The increase was primarily manifested in fixed deposits while depositor concentration remained high. As per the management, comfort can be drawn to a certain extent from the nature of some big deposits, which relates to pension funds of related parties. Further, the bank is maintaining adequate liquidity buffer which JCR VIS believes is critical to continue, until the granularity of deposits improve. The management plans to increase granularity by introducing low ticket sticky deposits through its Asaan deposit scheme and branchless banking project, going forward.

Despite decrease in mark-up spreads, profitability of the bank improved during FY17 owing to volumetric increase in the microcredit portfolio, while non mark-up income also depicted an upward trajectory. Moreover, in spite of considerable increase in administrative expenses, Operating Self Sufficiency remained higher than peer microfinance banks. Equity of the bank augmented on the back of internal capital generation, however Capital Adequacy Ratio (CAR) witnessed a slight decline on account of considerable growth in the microcredit portfolio. Given growth plans, internal capital generation would be sufficient to maintain CAR above the minimum regulatory requirement.

During FY16, the bank issued a privately placed term finance certificate (PPTFC) amounting Rs. 3.0b in order to its finance operations. By end-FY17, outstanding principal of the PPTFC amounted to Rs. 750m and will be fully redeemed by June 30, 2018.

For further information on this rating announcement, please contact the undersigned at 021-35311861-70 or Mr. Maimoon Rasheed at 042-35723411-13.

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Applicable Rating Criteria: Micro Finance Banks (May, 2016)
<http://www.jcrvis.com.pk/kc-meth.aspx>

Rating the Issue (June, 2016)
http://jcrvis.com.pk/docs/criteria_instrument_16.pdf

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