

Press Release

VIS Downgrades Entity Ratings of NRSP Microfinance Bank Limited

Karachi, April 29, 2022: VIS Credit Rating Company Limited (VIS) has downgraded the entity ratings of NRSP Microfinance Bank Limited ('NRSPB' or 'the Bank') to 'A-/A-1' (Single A Minus/A-One) from 'A/A-1' (Single A Minus/A-One). The outlook on the assigned ratings has been revised from 'Rating Watch - Developing' to 'Negative'. The long term rating of 'A-' signifies good credit quality with adequate protection factors. Risk factors may vary with possible changes in the economy. The short term rating of 'A-1' denotes high certainty of timely payment, liquidity factors are excellent and supported by good fundamental protection factors. The previous rating action was announced on April 29, 2021.

The assigned ratings of NRSPB incorporates presence of reputable sponsors carrying reasonable experience and understanding of the microfinance sector. Changes have been noted in the shareholding pattern, with KfW Germany and Acumen Capital Markets LLP exiting in 2021 and PROPARCO France acquiring a fresh stake in the Bank. Sponsor's commitment has historically been demonstrated by way of both technical and financial support. VIS anticipates forthcoming support in the foreseeable future.

The revision in ratings encapsulates the impact of Covid-19 on microfinance sector wherein portfolio credit quality has been impacted along with relative uncertainty on its sizable rollover portfolio that has not fallen due yet. At present level, credit quality indicators of the portfolio are indicative of high to moderate credit risk. Cognizant of the increased credit risk prevalent in the sector, the management has taken measures such as moving towards EMI-based products and lowering exposure to higher risk sectors. In the outgoing year, NRSPB has strategically reduced higher costing institutional deposits thus improving deposit composition on a timeline. Though liquid asset coverage of deposits and borrowings remains commensurate with the assigned rating, they show a slight decline from preceding year.

Given that the net advances remained largely unchanged in combination with an impairment driven drop in yield on advances portfolio, the markup income depicted a 10% decline in FY21. Furthermore, fee & commission income also dropped by a fifth, given lower loan processing fees. Despite a very measured uptick in operating overheads, the Bank's OSS fell below 100%. As a result of the adverse profitability, the Bank's CAR has fallen below the minimum requirement of SBP. In order to stay compliant with the same, NRSPB is planning to issue right shares of Rs. 2b, subsequent to which CAR is forecasted to be sizable enough to provide room for growth besides achieving regulatory compliance.

The assigned ratings remains dependent on successful conclusion of planned equity infusion while improvement in portfolio health and profitability are also important from a rating purview.

For further information on this rating announcement, please contact the undersigned (Ext: 306) or Mr. Aarsal Ayub, CFA (Ext: 216) at 35311861-70 or fax to 35311872-3.

Faryal Faheem Ahmed
Deputy CEO

Applicable rating criterion: Micro Finance Banks (June 2019)
<https://docs.vis.com.pk/docs/Micro%20Finance%20201906.pdf>

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