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## Analysts

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## Applicable Criteria

- Methodology | MicroFinance Institutions (Jun 17)
- Methodology | Correlation between long-term and short-term rating scale (Jun 17)
- Methodology | Criteria Modifiers (Jun 17)

## Related Research

- Sector Study | Microfinance Bank (Apr 18)

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# PACRA Maintains Entity Ratings of NRSP Microfinance Bank Limited

Rating Type	Entity	
	Current (30-Apr-2018)	Previous (31-Oct-2017)
<b>Action</b>	Maintain	Maintain
<b>Long Term</b>	A	A
<b>Short Term</b>	A1	A1
<b>Outlook</b>	Stable	Stable
<b>Rating Watch</b>	-	-

The ratings of NRSP Microfinance Bank ("the Bank") incorporate emergence of the Bank as a growing institution, evident from consistent improvement in business volumes and ensuing profitability. The loan book represents significant growth since inception. Though the design of lending product keeps the concentration high, it takes comfort from the prudent strategy to focus group-lending in rural areas and a sizable portion of crop-linked loans. Moreover, the bank is eyeing diversification through introducing new micro-finance products and expanding its Islamic micro-lending division. The healthy asset quality of the bank is exhibited by its low non-performing loans (NPLs); ~0.3%, being one of the finest among the peers. The expansion strategy boded well for the bank resulting into enhanced customer outreach evident from the escalated deposit base. This has made the bank a major contributor in the micro-deposits (~13% market share) and is expected to sustain its position, benefiting from the specified branches introduced for deposit mobilization. The ratings reflect association of NRSP Microfinance Bank with the National Rural Support Programme, the major shareholder, and with the three foreign development organizations - IFC, Acumen, and KfW, providing both technical and financial support to the bank. The Bank is poised towards expansion mainly focusing in untapped rural areas and aims to introduce technology driven banking products in near future. Focus on poverty alleviation for the underprivileged community remains pivotal in modelling the bank's strategy.

The ratings are dependent on the bank's ability to sustain improving trend in its market position. The out-turn of the bank's strategy to digitize its core lending operations and modify its lending mix is important. Unfolding of the bank's venture into branchless banking remain imperative alongside the bank's aptness to maintain a steady low cost deposit base.

## About the Entity

NRSP Microfinance Bank Limited (NRSP Bank) commenced operations in Mar'11 as a nation level microfinance bank. The bank is majority (~52%) owned by National Rural Support Program (NRSP), Kreditanstalt für Wiederaufbau (KfW), International Finance Corporation (IFC), and Acumen each having ~16% shareholding in the Bank. With a network of 104 branches, the bank has its head office in Bahawalpur, a key district in Southern Punjab; placing it closer to its target market.

NRSP's board comprises 3 representatives from NRSP, 1 nominee each from IFC, KfW, and Acumen, 2 independent directors and the CEO. Mr. Zahoor Hussain Khan - President since 2011 – an experienced microfinance banker. He is assisted by a qualified management team.

## About the Instrument

In Jun'16 the Bank issued a secured, privately placed TFC of PKR 3bln for a tenor of 2 years to support microfinance expansion ; quarterly coupon payments at 3 months KIBOR plus 2.35%. Security structure comprises pari passu charge on the bank's current assets with 25% margin and cash coverage of PKR 300mln throughout the life of instrument. Principal of PKR ~750mln remains outstanding as of Dec'17.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.