



**Date**

30-Apr-21

**Analyst**

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**Applicable Criteria**

- Methodology | MFI | Jun-20
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-20
- Criteria | Rating Modifier | Jun-20

**Related Research**

- Sector Study | Microfinance | Sep-20

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**PACRA Maintains Entity Ratings of Telenor Microfinance Bank Limited**

Rating Type	Entity	
	Current (30-Apr-21)	Previous (30-Apr-20)
Action	Maintain	Maintain
Long Term	A+	A+
Short Term	A1	A1
Outlook	Negative	Negative
Rating Watch	-	-

The ratings take comfort from association of Telenor MFB ('the bank') with robust sponsors - Telenor Group (~55%) and the Chinese Fintech equity partner - Ant Financial, through its investment arm, AliPay (Hong Kong) Holding Limited (~45%). The bank's business profile emanates from its nationwide network of more than 170,000 registered branchless banking agents, serving over 8 million customers every month. The bank's strategic vision is focused towards digitization with notable developments underway for growth of the branchless platform, 'Easypaisa'. Ambition of a sustainable consumer platform rests upon increasing acquisition, retention and transactional throughput in branchless banking (BB) wallet accounts. While growth strategies for the Bank have been taken under consideration, overall performance indicators reflected a deteriorated outlook in CY20, mainly owing to COVID-19 pandemic and identification of legacy challenges of 2019. Consequently, the bank's advances declined to PKR 11,090mln as at End-Dec'20 (End-Dec'19: PKR 19,999mln), indicating a fall of ~45%. The Bank has cut its losses in CY20 as compared to the corresponding period, however there is still a significant shortfall. Management's commitment to recoup the asset health and consolidate the bank's position within the stipulated time is an acute necessity. Moreover, since the projected outlook of the bank indicates absorbing significant cash and accounting losses, timely yet matching sponsor support through Equity injections is essential. Equity injections of USD 45mln and USD 41mln in Aug20 and Jan21 respectively represents the willingness and the ability of the sponsors to support the Bank. On an Industry level, the nationwide lockdown due to the global pandemic - Covid-19, is expected to cast a significant impact on the whole microfinance sector. Under the current scenario, continuity of COVID-19 pandemic (penetration of third wave in Pakistan) will poise challenge to business and asset quality. Though SBP's Relief Packages have come handy to the sector in protecting the credit quality of the players during the first wave, the out-turn of the situation, and its relative impact on the risk profiles of industry players, including Telenor, is yet to unfold in the days to come.

The ratings are dependent upon the out-turn of management's plans to steer the risk profile of the Bank towards improved trajectory. Timely Sponsor Support is imperative. The Assigned Outlook is reflective of the short term challenges that the Bank's business and financial risk profile are facing, particularly emanating from economic meltdown and Covid-19 repercussions.

**About the Entity**

Telenor Microfinance Bank Limited commenced operations in September 2005 and currently operates with a nationwide network of 87 branches, with its head office in Karachi. Telenor Pakistan B.V (Telenor Group) and AliPay (Hong Kong) Holding Limited (Ant Financial) hold ~55% and ~45% shareholding in the bank, respectively. Overall control of the bank vests with eight members of the Board of Directors. Currently three directors, including the Chairman - Mr. Irfan Wahab, represent the Telenor Group. Likewise, Ant Financial is represented by three directors, while two directors on the board are independent. In October 2019, Mr. Mudassar Aqil (formerly the Chief Executive of FINCA MFB), took charge as the CEO of the bank, carrying with him over two decades of experience in the banking industry.

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.