



Date

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Applicable Criteria

- Methodology | Microfinance Institution Rating | Jun-21
- Criteria | Correlation Between Long-term & Short-term Rating Scales | Jun-21
- Criteria | Rating Modifiers | Jun-21

Related Research

- Sector Study | Microfinance | Sep-21

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PACRA Revises Entity Ratings of Telenor Microfinance Bank Limited

Rating Type	Entity	
	Current (30-Apr-22)	Previous (30-Apr-21)
Action	Downgrade	Maintain
Long Term	A	A+
Short Term	A1	A1
Outlook	Stable	Negative
Rating Watch	Yes	-

Telenor MFB ('the Bank'), associated with robust sponsors, is a mid-tier player in Pakistan's microfinance sector with ~2.5% share in total gross loan portfolio as at End-Dec'21. 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 deteriorated outlook in CY21 due to industry wide challenges on Covid relief portfolio side and new IBFT pricing regime. Although the Bank's GLP recorded a decline over the last two years, the existing portfolio significantly constitutes the loans disbursed under a new and improved credit underwriting model. Bottom line of the Bank reported a loss of PKR 10,765mln (Loss in CY20: PKR 10,704mln). Management's commitment to recoup the asset health and consolidate the Bank's position within the stipulated time is an acute necessity. Cognizant of this, the management has redesigned the business model. The focus areas would be secured portfolio and EMI, in which growth potential is being envisaged. Digital strategy is being emphasized as lynchpin to the model. While reach-out is being enhanced, cashless modes of transactions would be adapted mostly. The management has represented that asset quality on the fresh portfolio is good. Easypaisa has reached quite a size in terms of active users, providing multiple transactions. The Easypaisa App is currently one of the largest financial services App in the country and is being looked at as the future of the Bank. In this realm, competition is also increasing. Moreover, since the projected outlook of the Bank indicates absorbing accounting losses, timely yet matching sponsor support through Equity injections is essential. Equity injection of USD 22mln in Jan'22 and probable injection of USD 20mln in Jul'22 represents the willingness and the ability of the sponsors to support the Bank. Though SBP's Relief Packages have come handy to the sector in protecting the credit quality of the players during the previous waves, the out-turn of the situation, and its relative impact on the risk profiles of industry players, is yet to unfold in the days to come. Regarding the Covid relief portfolio, TMB management believes that it has taken key steps to recover and has been upfront in recognition of losses by adequately covering the same in the equity funding plan.

The revision in rating represents the challenges that Bank's business and financial risk profile are facing. These impediments are exhibited in net decline in GLP (which is conscious management decision to focus on quality), increasing infection due to Covid relief portfolio resulting in constrained markup earned and accumulating losses.

About the Entity

Telenor Microfinance Bank Limited currently operates with a nationwide network of 87 branches. Telenor Pakistan B.V (Telenor Group) and AliPay (Hong Kong) Holding Limited (Ant Financial) hold ~55% and ~45% shareholding in the bank, respectively. 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.