

**Date**

29-Apr-23

**Analyst**

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**Applicable Criteria**

- Methodology | Microfinance Institution Rating | Jun-22
- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jun-22
- Methodology | Rating Modifiers | Jun-22

**Related Research**

- Sector Study | Microfinance | Sep-22

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

Rating Type	Entity	
	Current (29-Apr-23)	Previous (30-Apr-22)
<b>Action</b>	Maintain	Downgrade
<b>Long Term</b>	A	A
<b>Short Term</b>	A1	A1
<b>Outlook</b>	Stable	Stable
<b>Rating Watch</b>	Yes	Yes

Telenor MFB ('the Bank') is associated with robust sponsors - Telenor Group (~55%) and the Chinese Fintech equity partner - Ant Financial, through its investment arm, AliPay (Hong Kong) Holding Limited (~45%). Telenor MFB is a mid-tier player in Pakistan's microfinance sector with ~3.1% share in the total gross loan portfolio as of end-Dec'22. The bank's business profile emanates from its nationwide network of more than 200,000 registered branchless banking agents, serving over 11 million customers every month. Recently, Telenor Microfinance Bank has been granted NOC for a digital banking license in January 2023. TMB has engaged consultants and as per process, TMB is preparing a Transition plan (legal and operational) which will be submitted to SBP by June 2023 for In-principal approval. TMB is ensuring complete readiness for conversion to a Digital Retail bank by the end of 2023. The conversion shall entail the grant of the Digital Retail Bank license which shall replace the existing Microfinance Bank license. Organogram has been redesigned with verticals of payment solutions, productive lending, and consumptive lending. The bank's strategic vision is focused on digitization with notable developments underway for the growth of the branchless platform, 'Easypaisa'. The ambition of a sustainable consumer platform rests upon increasing acquisition, retention, and transactional throughput in branchless banking (BB) wallet accounts. The Bank's bottom line reported a loss of PKR 7,099mln (Loss in CY21: PKR 10,765mln). During CY22, the fee and commission income was enhanced to PKR 800mln (CY21: PKR 563mln). NPLs of the bank reflected a sizable decline to PKR 736mln (end-Jun21: PKR 2.0bln) whereas the write-off amount also declined YoY. The bank's external funding primarily consists of deposits, clocking in at PKR 46,598mln as of end-Dec22 (end-Dec21: PKR 39,043mln), reflecting a good increase. The management has undertaken a redesign of the business model, emphasizing the secured portfolio and EMI products due to their perceived growth potential. The digital strategy will be a key driver in the execution of the model. Furthermore, considering the projected outlook of the bank, which suggests the need to absorb substantial cash and accounting losses, its crucial to receive sponsor support through timely and commensurate equity injections. The sponsors have demonstrated their willingness and capacity to support the bank through equity injection in several tranches received in the last years. Moreover, the equity required to be received in CY23 is capped at USD 15mln.

The maintenance in rating represents the bank's plan for growth is in place and the business profile has demonstrated improvement in 1QCY23. The sustenance and growth of critical parameters is expected to flow in quarters to come.

**About the Entity**

Telenor Microfinance Bank Limited commenced operations in September 2005 and currently operates with a nationwide network of 61 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 nine members of the Board of Directors. Currently four 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.

