

Press Release

VIS Reaffirms Entity Ratings of Telenor Microfinance Bank Limited

Karachi, April 30, 2019: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of Telenor Microfinance Bank Limited (TMB) at 'A+/A-1' (Single A Plus/A-One). The long-term rating of 'A+' signifies good credit quality; Protection factors are adequate. 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. Risk factors are minor. Outlook on the assigned ratings is 'Stable'. The previous rating action was announced on April 28, 2018.

The assigned ratings to TMB incorporate strong sponsor profile and demonstrated support of both sponsors, Telenor Pakistan B.V (TP), (a Netherland based company owned by Telenor ASA) and Ant Financial (AF). AF is a China based company and is owned by the Alibaba Group. Ratings also reflect TMB's position as the second largest microfinance bank in the country in terms of outstanding gross loan portfolio and market leadership position in the Branchless Banking (BB) segment. Ratings also factor in TMB's diversified operations, adequate liquidity and sound capitalization indicators. Ratings remain dependent on achieving targeted performance benchmarks on the BB front while improving asset quality indicators and earnings profile as projected.

In line with strategic partnership agreement, TMB's key strategic focus over the medium term remains on aggressive customer acquisition (both in mobile account and mobile application platform) and encouraging high frequency and mass appeal transactions in order to facilitate in developing an ecosystem for customers. Customer acquisition witnessed noticeable growth during 2018 with healthy growth expected to continue in the ongoing year given the aggressive marketing spend planned. Given that BB segment is expected to assume an increasing proportion of overall revenues over time, risk profile emerging from the segment with higher level of customers and transactions will be a key rating driver. VIS will also track impact of competitive pressures on projected profitability indicators over the long-term.

TMB's Loan portfolio continued growth momentum although asset quality indicators have weakened due to certain internal control issues which later have been addressed. Controlled portfolio growth along with increasing proportion of digital lending in the financing mix while further strengthening controls will be key focus areas in 2019. Liquidity profile remains manageable due to presence of sizeable liquid assets in relation to deposits and borrowings although depositor concentration and deposit mix have depicted weakening. Management expects ongoing customer acquisition to result in sizeable growth in current account deposits from BB operations over the next two years.

Profitability of the bank was impacted by increase in provisions against non-performing loans and expenses incurred for BB customer acquisition. In line with strategy, earnings profile is expected to improve over the medium term. Equity base witnessed a noticeable increase post capital injection in 2018. Despite projected losses and equity attrition emanating from further planned BB customer acquisition expenditure over the rating horizon, capitalization indicators are projected to be supported by cushion available above the minimum regulatory requirement and further equity injection by AF. A documented funding and capitalization plan is in place with overall equity injection being higher vis-à-vis expected losses.

For further information on this rating announcement, please contact the undersigned (Ext: 201) or Mr. Talha Iqbal (Ext: 213) at 021-35311861-70 (10 lines) or fax to 021-35311873.


Javed Callea
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Applicable Rating Criteria: Microfinance Institutions (May 2016) <http://www.vis.com.pk/kc-meth.aspx>

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