



Date

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Analysts

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Applicable Criteria

- Methodology | Criteria | Rating Modifier (Jun 18)
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale (Jun 18)
- Methodology | MFI (Jun 18)

Related Research

- Sector Study | Microfinance Bank (Apr 19)

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PACRA Maintains Entity Ratings of Telenor Microfinance Bank Limited

Rating Type	Entity	
	Current (30-Apr-2019)	Previous (07-Nov-2018)
Action	Maintain	Maintain
Long Term	A+	A+
Short Term	A1	A1
Outlook	Stable	Stable
Rating Watch	-	-

The ratings take comfort from association of Telenor MFB ("the bank") with a strong sponsors – Telenor Group (~66%) and the recently inducted Chinese Fintech equity partner - Ant Financial, through its investment arm, AliPay (Hong Kong) Holding Limited (~34%). The group's shareholding is expected to go up to ~45% by 2020 following injection of the next equity tranche. The bank's business profile emanates from its growing customer base and sustained relative position. Securing a ~17% share in the MFB's gross loan portfolio (GLP) and ~18% in its gross deposits, the bank continues to hold a prominent position in the MFBs market. With the advent of a new investor on board, the bank's strategic direction has shifted towards expanding Pakistan's digital ecosystem through tapping the Mobile-Wallet market potential. Significant developments in this regards are underway. Ambition of a sustainable consumer platform rests upon increasing customer acquisition and retention. The substantial increase in expenditures (monitored on periodic frequency) can be mapped onto the growth initiative of the bank. Rising marketing expenses as part of Bank's strategy to increase digital footprint has resulted in increased administrative costs and affected the profitability ratios for the period under review. Resultantly, the bank recorded a loss of PKR 2,516mln during CY18 as compared to net profit of PKR 417mln last year. With the designed business model and current trends, the bank projects profitability in 2021. Additionally, the bank's asset health also deteriorated during the period under review with infection ratio swelling to ~4% as at End-Dec'18 (~1.7% End-Dec'17). The bank expects it to come down over the short horizon with more stringent controls in place. Strengthened equity base with the induction of Ant Financial, however, provides support to the ratings.

The ratings are dependent upon successful materialization of the devised business plan and translation of the same into positive indicators. Any deviation from the desired targets impacting the performance indicators would be considered negative. Meanwhile, revival of asset health is imperative.

About the Entity

Telenor Microfinance Bank Limited commenced operations in Sep-05 and currently operates with a nationwide network of 104 branches with its head office in Karachi. Telenor Pakistan B.V (Telenor Group) and AliPay (Hong Kong) Holding Limited (Ant Financial) holds ~66% and ~34% shares in the bank respectively. Overall control of the Bank vests with seven members. Currently, five directors including Chairman Mr. Petter Borre Furberg are representative of the Telenor Group while two are independent directors. After the resignation of Mr. Shahid Mustafa, Mr. Muhammad Aslam Hayat has taken up the role of CEO (Acting) of the bank. – carries over ~30 years of professional experience in banking and finance, and has been associated with the Telenor group for long. He is assisted by able management team.

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.