



Date

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Analyst

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Applicable Criteria

- Methodology | MFI | Jun-19
- Methodology | Correlation Between Long-Term And Short-Term Rating Scale | Jun-19

Related Research

- Sector Study | Microfinance | Sep-19

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PACRA Maintains Entity Ratings of Telenor Microfinance Bank Limited | Negative Outlook

Rating Type	Entity	
	Current (30-Apr-20)	Previous (30-Oct-19)
Action	Maintain	Maintain
Long Term	A+	A+
Short Term	A1	A1
Outlook	Negative	Stable
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 formidable customer base and strong relative position in the Industry. Securing an ~11% share in the gross loan portfolio and ~16% in gross deposits of the microfinance industry, the bank holds a prominent position in the market (End-Sep'19). 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 on the BB front are noted, overall performance indicators reflected a deteriorated outlook in CY19, mainly owing to extended credit delinquencies on account of system risks and internal fragility. Consequently, the bank's NPL ratio spiked to ~9% as at End-Sep'19 (End-Dec'18: ~4%), leading to unforeseen losses on the conventional front, in addition to anticipated BB losses. 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. 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. The key risks emanating from the current crisis are (i) loss of recovery (ii) halt in fresh disbursement and (iii) probable liquidity stretch. While the bank's digitization platform is expected to reap benefits of the low mobility, the challenges on the conventional domain remain upfront. The Regulator - SBP's Relief Packages have come handy to the sector in protecting the credit quality of the players. Out-turn of the situation and its relative impact on the risk profiles of the players 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 ~172 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.