

Press Release

VIS Downgrades Entity Ratings of Telenor Microfinance Bank Limited

Karachi, April 30, 2021: VIS Credit Rating Company Limited (VIS) has downgraded the entity ratings of Telenor Microfinance Bank Limited (TMB) from 'A+/A-1' (Single A Plus /A-One) to 'A/A-1' (Single A /A-One). Outlook on the rating has been revised from 'Rating Watch – Negative' to 'Negative'. 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. The previous rating action was announced on April 30, 2020.

While acknowledging the USD 41 million injected by the sponsors in January 2021 in line with the approved business plan, the revision in rating takes into account the possible impact on the branchless business of the continuous expenditure towards customer acquisition/retention costs and tech platform augmentation, along with evolving regulatory changes, in creating additional funding requirements of the Bank. Similarly, despite declining advances market share, mainly driven by the asset book consolidation & de-risking undertaken in 2019-20, bottom line losses have so far remained in line with projections. However, despite significant provisioning undertaken during the past 2-year period, asset quality indicators of the advances portfolio may continue to remain under pressure as a result of the pandemic-induced challenges. In view of the changes in aforementioned business risk metrics, the Bank's rating has been revised downwards.

The assigned ratings continue to incorporate 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), which is part of Alibaba Group, Peoples Republic of China. Key shareholders have reiterated support to TMB, by way of equity infusion amounting USD 45m in August 2020 and USD 41m in January 2021. Nevertheless, as noted above, the Bank would require further equity infusion by the end of 2021, for which commitments from key shareholders is expected to be retained.

Achievements made by the Bank during 2020 have been noted; these included strong branchless banking led growth in deposit base. Given that this growth was driven by deposits in Easy Paisa m-wallet accounts, deposit mix has also depicted notable improvement in terms of shift towards non-remunerative accounts and a retail clientele. Furthermore, given the halt in lending operations, much of the excess liquidity was channeled towards market treasury bills, resulting in significant improvement in the liquidity indicators.

Going forward, heightened credit risk remains a concern across the microfinance industry. Akin to the industry, TMB's portfolio also constitutes sizable Covid-19 related deferments/ restructured accounts. As and when maturities start becoming due, which is expected in Q2 and Q3 of 2021, impairment ratio is expected to remain under pressure. VIS will continue to monitor the asset quality indicators on a timeline, and these will be important rating drivers. In view of continued uncertainty and severity of impact of the pandemic on the economy in general and microfinance sector in particular, the outlook on the ratings will remain vulnerable.

For further information on this rating announcement, please contact the undersigned (Ext: 306) or Mr. Aarsal Ayub, CFA (Ext: 213) at 021-35311861-70 (10 lines) or fax to 021-35311873.

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Deputy CEO

Applicable Rating Criteria: Microfinance Banks (June 2019) <http://www.vis.com.pk/kc-meth.aspx>

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