

VIS Credit Rating Company Limited

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Press Release

VIS Maintains Ratings of Telenor Microfinance Bank Limited with 'Stable' Outlook

Karachi, April 30, 2022: VIS Credit Rating Company Limited (VIS) has maintained the entity ratings of Telenor Microfinance Bank Limited ('TMB' or 'the Bank') at 'A/A-1' (Single A /A-One). Outlook on the rating has been revised from 'Negative' to 'Stable'. 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, 2021.

The assigned ratings reflect robust financial profile of both sponsors, Telenor Pakistan B.V. and - Ant Financial - (Alipay (Hong Kong) Holding Limited. Key shareholders have demonstrated support to the entity by way of continued equity injection, amounting to Rs. 19b over the past 2-year period 2020-21. From a liquidity purview, TMB is well placed in its peer group with 83% coverage of deposits and borrowings by liquid assets.

TMB's profitability indicators remained under pressure in 2021 mainly due to industry wide challenges on the Covid relief portfolio and new IBFT pricing regime. Nevertheless, over the years, TMB's Branchless Banking (BB) segment, which operates under the brand name 'Easypaisa' (EP), has posted notable growth in terms of Monthly Active Users (MAUs). TMB's BB segment gives the Bank the ability to attract low cost retail deposits, which is viewed positively. Furthermore, with customer incentives being rolled back in 2021, BB segment profitability position has depicted improvement on a timeline, a trend which is projected to continue going forward.

As per the Bank's strategy plan, profitability indicators are projected to improve going forward, which will be achieved by a mix of higher NIM and BB segment revenues. Furthermore, overall provisioning burden is likely to be much lower going forward, given that significant amount of provisions have already been taken and credit quality of the portfolio is notably better, as can be ascertained from the improvement in yield on advances noted in Q1'2022. The assigned rating remains dependent on materialization of revenue growth in line with projections.

In line with sponsor commitments TMB received equity injections, which allowed the Bank to maintain its CAR above 18%. Recently, TMB's Board has approved a capital plan for injecting USD 71m during the period 2022-24. Subsequent to the year end, key shareholders have already made part of the planned equity infusion i.e. USD 22m (Rs. 3.9b) in Q1'2022. As per management, the sponsors remain committed to ensure the Bank complies with minimum CAR requirement.

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


Faryal Ahmad Faheem
Deputy CEO

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

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