

## RATING REPORT

### Telenor Microfinance Bank Limited (TMB)

**REPORT DATE:**

April 30, 2020

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity Rating</b>	A+	A-1	A+	A-1
<b>Rating Date</b>	<i>April 30, '20</i>		<i>April 30, '19</i>	
<b>Rating Outlook</b>	Rating Watch-Negative		Stable	

**COMPANY INFORMATION**

<b>Incorporated in 2005</b>	<b>External auditors:</b> KMPG Taseer Hadi Khalid & Co. Chartered Accountants
<b>Public Limited Company</b>	<b>Chairman:</b> Irfan Wahab Khan
<b>Key Shareholder(s):</b>	<b>Chief Executive Officer:</b> Mohammad Mudassar Aqil
<b>Telenor Pakistan B.V – 55%</b>	
<b>Alipay (Hong Kong) Holding Limited – 45%</b>	

**APPLICABLE METHODOLOGY(IES)**

VIS Entity Rating Criteria : Microfinance Banks - June 2019

<http://www.vis.com.pk/kc-meth.aspx>

## Telenor Microfinance Bank Limited (TMB)

### OVERVIEW OF THE INSTITUTION

Telenor Microfinance Bank Limited (TMB) was incorporated in 2005 as a limited company under the Companies Ordinance, 1984.

#### Profile of Chairman

Mr. Irfan Wahab Khan is the EVP, Head of Emerging Asia cluster Telenor Group, Chairman of Telenor Myanmar, Chairman Telenor Microfinance Bank, Director to the Grameenphone Board (Bangladesh) and CEO of Telenor Pakistan. Prior to that, Mr. Irfan served as Deputy CEO/CMO Telenor Pakistan for two years. Since joining Telenor in 2004, he has held a number of executive positions across Telenor Group including Executive Vice President Telenor Pakistan, CEO Telenor LDI and, Group Vice President Devices & Distribution Telenor Group. Mr. Khan holds a Masters degree in Mobile and Personal Communications from University of Westminster London UK. He also holds qualifications in Financial Management from Harvard Business School, executive diploma in Marketing from London Business School and Advance Management from INSEAD and a Qualified Board Director from IMD. He is also a lifetime Alumni of INSEAD.

#### Profile of CEO

Mudassar Aqil is the President and Chief Executive Officer of Telenor Microfinance Bank.

### RATING RATIONALE

Telenor Microfinance Bank Limited (TMB) is a subsidiary of Telenor Pakistan B.V (TP), (a Norway based company owned by Telenor ASA) having major shareholding in the bank. In accordance with strategic partnership agreement with Ant Financial (AF) in Pakistan of investing US\$ 184.5m for 45% stake in TMB, Alipay (Hong Kong) Holding Limited had acquired 33.68% of shareholding in the bank as at end-December 2018. As per the initially envisaged agreement, remaining equity injection of US\$ 70.0m was completed in 2019. Current shareholding of AF in TMB stands at 45% as at end-2019. Further support from shareholders in the form of equity injections is expected over the medium term.

Originated from Alipay and officially established in 2014, AF is a technology company focused on providing digital payment solutions for small and micro enterprises, as well as individuals. Brands under AF include Alipay, Ant Fortune, Zhima Credit and MYbank. Alipay is the world's leading online and mobile payments platform with over 1 billion users. The objective of this strategic partnership is to further develop and make value additions in TMB's mobile payment and digital financial services.

As on December 31, 2019, TMB's operations were spread across 171 branches (2018: 171 branches) nationwide. Commencing operations in 2005, the bank has a proven track record in microfinance segment and remains the fourth largest microcredit provider in terms of gross advances. On the branchless banking (BB) front, TMB operates under the brand name easypaisa and is the market leader in terms of number of total and active accounts. Going forward, TMB plans to reduce its branch network in line with digital banking focused strategy.

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 encourage high frequency and mass appeal transactions. This will facilitate TMB to develop an ecosystem for customers to manage their financial and telecom related needs. Customer acquisition witnessed noticeable growth during 2019 with healthy growth expected to continue in the ongoing year given aggressive marketing spending planned. Management is pursuing a telco-agnostic approach to achieve growth in customers. Similar agreements are also expected with other B2B firms in the ongoing year. As per management, user friendly app and in-house app development capability to cater to changing user needs will be key factors supporting customer growth and will provide TMB a competitive edge over competitors.

#### Key Rating Drivers:

##### **Strong sponsor profile and demonstrated support is a key rating driver.**

The assigned ratings reflect robust financial profile of both sponsors, TP and AF. TP is a Netherland based company and a wholly owned subsidiary of Telenor Norway.

##### **Controlled portfolio growth along with overhaul of branch banking will be key focus areas in 2020.**

At end-9M19, gross advances portfolio registered decrease of 5% vis-à-vis 2018. Decrease in loan portfolio is attributed to deliberate strategy on part of management to pause lending. Overall product-wise portfolio remains diversified. Gross advances portfolio includes a mix of bullet and EMI loans while group loans comprise over one-tenth of the overall advances. TMB plans to resume lending in ongoing year with focus on EMI and digital lending.

Mudassar is an accomplished executive with over 21 years of banking experience in the US and Pakistan with demonstrable success in areas of organizational restructuring, digital finance, FinTech partnerships, and business growth.

He has a steadfast record in consistently delivering exceptional results by developing high-performance teams, focusing on value drivers, and executing strategies. Mudassar also has extensive expertise in leading banking operations, HR, strategy, and marketing.

Before joining Telenor Microfinance Bank, Mudassar was the President and CEO of FINCA Microfinance Bank and previously also served as the Vice President for M&T Bank in New York.

Gross and net infection increased to 8.8% (2018: 4.1%; 2017: 1.0%) and 6.3% (2018: 2.5%; 2017: 0.8%) respectively at end-9M19. Asset quality was affected due to certain internal control issues which later have been addressed. Subsequently, management has taken a number of steps to enhance controls.

**Liquidity profile remains manageable due to presence of sizeable liquid assets in relation to deposits and borrowings. Management expects ongoing customer acquisition to result in sizeable growth in current account deposits from BB operations over the next two years.**

Liquid assets in relation to total deposits and borrowings remain manageable. Proportion of current accounts increased while CASA ratio stood around prior year level at end-9M19 although the same is expected to improve over the rating horizon with envisaged growth in BB customers.

**Profitability profile is expected to improve over the medium term given that aggressive customer acquisition drive is expected to continue.**

Growth was witnessed in TMB's topline in 9M19. BB segment demonstrated impressive growth in ongoing year in terms of new M-Wallet accounts acquired and growth in transaction volumes. Profitability is expected to improve once BB business gains further traction. As per management, acquisition cost per customer is on the lower side vis-à-vis other similar global benchmarks. Operational self-sufficiency ratio remained at manageable levels. Going forward, profitability of branch banking segment is projected to be a function of volumetric growth in advances and recoveries. On the other hand, BB segment will witness increase in income on the back of higher quantum of transactions. However, management expects to incur expenses as well, as aggressive growth in active customers remains the key strategic focus of the bank.

**Sizeable investment by sponsors to support planned growth. Capitalization indicators remain compliant with regulatory requirements. A documented funding and capitalization plan is in place with overall equity injected being higher vis-à-vis expected losses.**

Total equity has increased on the back of equity injection in 2019. As a result, CAR stands at a comfortable level, above the minimum regulatory requirement of 15% depicting room for growth. Going forward, continuous support from shareholders in the form of equity injections is expected to keep capitalization indicators of the bank at a comfortable level above the minimum regulatory requirement.

**Telenor Microfinance Bank Limited (TMB)**
**Appendix I**

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b>BALANCE SHEET</b>	<b>2017</b>	<b>2018</b>	<b>9M19</b>
Total Investments	6,767.3	9,008.4	4,626
Net Advances	24,761.7	32,944.8	30,951
Cash and Bank Balances	7,652.4	8,074.7	9,247
Total Assets	47,127.8	62,463.6	56,202
Deposits	36,664.9	42,274.9	37,550
Borrowings	-	-	542
Tier-1 Equity	4,981.5	13,615.0	8,289
Paid up capital	3,547	3,547	3,547
Net Worth	5,005.8	13,668.4	8,345
CAR	19.0%	37.0%	20.8%
<b>INCOME STATEMENT</b>	<b>2017</b>	<b>2018</b>	<b>9M19</b>
Net Mark-up Income	4,296.8	6,126.2	5,195
Net Provisioning / (Reversal)	217.0	1,365.4	2,020
Non-Markup Income	8,487.5	8,386.8	6,360
Operating Expenses	11,855.1	15,240.4	14,528
Recurring Income	12,649.2	14,298.8	11,373
Profit before Tax	672	(2,114)	(5,027)
Profit/ (loss) after tax	416.8	(2,515.7)	(5,325)
<b>RATIO ANALYSIS</b>	<b>2017</b>	<b>2018</b>	<b>9M19</b>
CA (%)	39.2%	26.2%	34%
CASA (%)	50.6%	48.9%	45%
Current Ratio	n/a	n/a	n/a
Gearing	-	-	0.06
Gross Infection (%)	1.0%	4.1%	8.8%
Net Infection (%)	0.8%	2.5%	6.3%
Incremental Infection (%)	1.2%	5.2%	9.6%
Net NPLs to Tier-1 Capital (%)	3.8%	5.8%	22.3%
Provisioning Coverage (%)	93.8%	88.6%	51.8%
Advances to Deposits (%)	68%	81%	86.4%
OSS (%)	107.9%	97.1%	78.5%
ROAA (%)	1.0%	-4.6%	-12.0%
Liquid Assets to deposits & borrowings (%)	49%	53%	39%

**VIS** Credit Rating Company Limited

**RATING SCALE & DEFINITIONS: ISSUES / ISSUERS**

**Medium to Long-Term**

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

**Short-Term**

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

**(blr) Rating:** A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

<b>REGULATORY DISCLOSURES</b>		<b>Appendix III</b>				
<b>Name of Rated Entity</b>	Telenor Microfinance Bank Limited (TMB)					
<b>Sector</b>	Micro Finance Bank (MFB)					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Rating Outlook</b>	<b>Short Term</b>	<b>Rating Action</b>	
	<b>RATING TYPE: Entity</b>					
	4/30/2020	A+	Rating Watch - Negative	A-1	Maintained	
	4/30/2019	A+	Stable	A-1	Reaffirmed	
	4/27/2018	A+	Rating Watch-Developing	A-1	Maintained	
	4/28/2017	A+	Stable	A-1	Reaffirmed	
	4/28/2016	A+	Stable	A-1	Reaffirmed	
	4/17/2015	A+	Stable	A-1	Reaffirmed	
	4/23/2014	A+	Stable	A-1	Upgrade	
	3/27/2013	A	Stable	A-1	Reaffirmed	
	12/26/2012	A	Stable	A-1	Reaffirmed	
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.					
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.					
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<b>Due Diligence Meetings Conducted</b>	<ul style="list-style-type: none"> <li>• Chief Financial Officer - Mr. Farhanullah Khan</li> <li>• Head of Branchless Banking – Mr Khurram Malik</li> <li>• Head of Branch Banking – Mr. Syed Ahmar Nizam</li> </ul>					