The Pakistan Credit Rating Agency Limited

# Rating Report

# Mobilink Microfinance Bank Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 30-Apr-2024 | A | A1 | Stable | Maintain | - |
| 29-Apr-2023 | A | A1 | Stable | Maintain | - |
| 30-Apr-2022 | A | A1 | Positive | Maintain | - |
| 30-Apr-2021 | A | A1 | Positive | Maintain | - |
| 30-Apr-2020 | A | A1 | Stable | Maintain | - |
| 18-Oct-2019 | A | A1 | Positive | Maintain | - |
| 29-Apr-2019 | A | A1 | Positive | Maintain | - |
| 07-Nov-2018 | A | A1 | Positive | Maintain | - |

## Rating Rationale and Key Rating Drivers

The bank's ratings are fortified by its association with Veon, a premier global telecom group spanning over six countries, and Jazz, the largest cellular operator in Pakistan. The bank's sponsor has displayed unwavering commitment by offering technical collaboration and financial backing, allowing the bank to penetrate its target markets with greater efficiency. The bank's business model prioritizes both core and branchless banking, utilizing the sponsor's network and brand name, JazzCash, to accelerate growth in the branchless banking sphere via mobile wallet accounts. Presently, the bank's strategy revolves around capitalizing on its digital banking infrastructure, strengthened by support from its super-agent cellular operator. The management remains self-assured in maintaining its margins and positioning the bank as a pioneering mobile banking services provider in the face of mounting competition. At end-Dec23, the bank captured a 19% (end-Dec22: 13%) market share in the microfinance industry's gross loan portfolio. NPL's quantum recorded an increase YoY to stand at PKR 5.3bln (end-Dec22: PKR 2.6bln) amid adoption of AC&MFD Circular No. 02 “Revision in Prudential Regulations for Microfinance Banks” aligning the DPD criteria for certain loan segments resulting in an increase of Rs 2.6bn in NPLs with a similar reduction in write-offs. With the sizable increase in key policy rate YoY harnessing of NPLs remains vital. During CY23, the bank's net markup income enhanced to PKR 24.8bln (CY22: PKR 14.5bln). The fee and commission income of the bank increased to PKR 10.3bln (CY22: PKR 6.5bln) mainly comprising income from branchless banking. Consequently, the net profitability increased to PKR 1,033mln (CY22: PKR 958mln). At end-Dec23, the capital adequacy ratio of the bank improved to 16.2% (end-Dec22: 15.7%) owing to increased profitability. The bank has a robust risk management framework designed to ensure asset quality.

The bank's ratings are contingent upon its capacity to effectively mitigate emerging risks under the prevailing circumstances to preserve its business and financial risk profile. At the same time, the bank's ability to safeguard its performance indicators in a challenging business environment is crucial. Going forward, prudent management of asset quality will remain of vital importance.

| Disclosure | |
|---|---|
| **Name of Rated Entity** | Mobilink Microfinance Bank Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology \| Rating Modifiers(Apr-23),Methodology \| Microfinance Institution Rating(Oct-23) |
| **Related Research** | Sector Study \| Microfinance(Sep-23) |
| **Rating Analysts** | Muhammad Usman Ameer \| usman.ameer@pacra.com \| +92-42-35869504 |

## Profile

**Structure** Mobilink Microfinance Bank Limited ("the Bank") was incorporated in February 2012 under section 32 of the Companies Ordinance, 1984 (now Companies Act, 2017). The bank has a network of 109 branches.

**Background** The Bank commenced its operations in April 2012 and launched branchless banking services under the brand name "JazzCash" in partnership with Pakistan Mobile Communications Ltd. (Jazz), in November 2012.

**Operations** Mobilink Microfinance Bank offers a range of micro-lending products comprising; (i) Karobar Loan, (ii) Khushhal Kisan Loan, iii) Fori Cash Loans (iv) Livestock loans (v) House Loan (vi) Tractor Loans (vii) Passbook loan & (viii) Micro-Enterprise Loan. As stated above, it also offers branchless banking services and is one of the largest digital banks in the country, with 16.2 million active mobile wallet accounts.

## Ownership

**Ownership Structure** Mobilink Microfinance Bank is a subsidiary of Veon Microfinance Holdings B.V (V.M.H), with effect from March 27, 2023 upon transfer of 99.99% shareholding in the bank from Global Telecom Holdings (GTH). The ultimate parent of the bank is Veon holdings limited.

**Stability** The ownership structure of the bank is considered stable, as it has a sole ownership of a strong sponsor.

**Business Acumen** Veon is an international telecommunication and technology-oriented business with more than 220 million customers. Business acumen is considered strong.

**Financial Strength** Veon's total asset base clocked in at USD 15,096mln while equity stood at USD 776mln, as of end-Dec22, depicting a robust financial position of the ultimate sponsor.

## Governance

**Board Structure** The overall control vests in the seven-member board of directors (BoD). The Board comprises four non-executive directors, two independent directors, and one executive director (the CEO of the bank). Mr. Aamir Hafeez Ibrahim is the Chairman of the Board.

**Members' Profile** The directors are experienced professionals, having exposure in different sectors, including microfinance and telecommunication.

**Board Effectiveness** The Board exercises its oversight via four committees, namely (i) Audit Committee (ii) Risk Management & Compliance Committee (iii) HR & Compensation Committee and (iv) IT Committee

**Transparency** M/S Yousuf Adil Chartered Accountants are the External Auditors of the bank. They expressed an unqualified opinion on the financial statements of the bank for the year ending on December 31, 2023.

## Management

**Organizational Structure** The Bank has divided its organization structure into different departments with each department head reporting directly to the CEO, while the head of the internal audit department, reports to the Audit Committee

**Management Team** Mr. Ghazanfar Azzam, the President, and CEO, carries over 38 years of experience in consumer, SME, and micro banking segments. He is assisted by an experienced management team.

**Effectiveness** The Bank has five management committees in place. The committee meetings are conducted on a frequent basis to ensure smooth flow of processes.

**MIS** Detailed MIS reports are generated for the senior management on a daily and monthly basis pertaining to loan portfolio, disbursements, repayments, delinquencies, provisioning, recoveries, and deposits.

**Risk Management Framework** A separate Risk Management Department is in place to oversee various risks including credit, operational, and market risks. The Risk Management Committee meets on a regular basis to ensure the risk profile of the Bank remains within the Board of Directors approved limits

**Technology Infrastructure** Backboned with strong sponsors and a natural affiliation with the telecom industry, the bank is equipped with sound technological infrastructure. It deploys Temenos (T24) as its core banking software. The bank has in place Middleware, an innovative technological platform, to facilitate branchless banking operations, A TM service, Utility bills payment, and G2P payments.

## Business Risk

**Industry Dynamics** The microfinance Bank's asset quality witnessed significant impairment due to multiple factors, the high inflationary environment amidst a slowdown in the economy, and the high-interest rate. In the Microfinance sector, the Microfinance Banks (MFBs) maintained the highest share of the total GLP at ~77%, while NBMFCs (including MFIs and RSPs) made up the remaining ~23% during CY23. MFBs' bottom line experienced a negative growth of ~52.7% (CY22: ~112.3%). Thereby, MFBs' equity continued to decline in CY23 by ~14.5%. Rising NPLs have been a major sign of concern for the MFBs sector. This issue not only stems from the fresh portfolio disbursed but also due to the carried-forward loan portfolio against the deferments allowed during the pandemic breakout. In CY23, the MFBs' NPLs increased to ~9.5% (~8.8% in CY22). Due to persistent losses and equity erosion, the MFBs sector capital structure also reflects a deteriorated outlook with the overall CAR of the sector falling way below the regulatory benchmark of 15.0% to ~7.6%in CY23. The Sector's Gross Loan Portfolio (GLP) clocked in at PKR~408bln as of End-Dec'23, up ~12.8% since End-Dec'22, when it recorded at PKR~361bln. However, during CY23, the sector's NPLs increased by ~12.3%, which is lower than the increase in NPLs during CY22 when the growth rate stood at ~61.8%.

**Relative Position** The Bank has a 19% market share in terms of Gross Loan Portfolio as of end-Dec23. In the branchless banking domain, the bank is the leading player in the industry. The bank is committed to maintaining its dominant position in branchless banking with its flagship product Jazz Cash.

**Revenue** During CY23, mark-up income earned by the Bank increased 77% to stand at PKR 30,662mln (CY22: PKR 17,335mln). Income from branchless banking increased PKR 8,487mln (CY22: PKR 5,429mln), indicating an increase of 56%.

**Profitability** During CY23, the net profitability of the bank increased by 8% to stand at PKR 1,033mln (CY22: PKR 958mln) mainly driven by a 70% increase in the NIMR of the bank, clocking in at PKR 24,764mln (CY22: PKR 14,550mln).

**Sustainability** The bank plans to persist in strengthening its branchless banking operations. Micro-deposits continue to add strength to the bank's performance indicators. The number of M-Wallet accounts has increased bearing the low cost and thereby enhancing profitability. The bank's business model encompasses systems and practices to nurture BB and core banking results simultaneously. In light of the safety precautions taken during the global pandemic, the importance of branchless banking has risen manifold.

## Financial Risk

**Credit Risk** At end-Dec23, the Bank's net advances clocked in at PKR 70,810mln (At end-Dec22: PKR 56,213mln), depicting a growth of 26%. The Bank's non-performing loans increased significantly to PKR 5,373mln (end-Dec22: PKR 2,604mln). Consequently, the infection ratio inclined to 7% (end-Dec22: 4%).

**Market Risk** At end-Dec23, the Bank's total investment significantly increased during the period, clocking in at PKR 33,388mln (end-Dec22: PKR 8,347mln). The investment portfolio of the bank comprises government securities only.

**Funding** At end-Dec23, the total deposits of the bank increased by 84% to stand at PKR 119,286mln (End-Dec22: PKR 64,765mln). The total borrowings declined to PKR 2,275mln (end-Dec22: PKR 3,488mln) mainly driven by a decline in the borrowings from the financial institutions clocking in at PKR 245mln (end-Dec22: PKR 1,473mln).

**Cashflows & Coverages** Liquidity profile reflected good position with available funds invested in Government Securities that yielded sanguine returns. The bank's liquid assets-to-deposits ratio denotes a good profile

**Capital Adequacy** At end-Dec23, the equity base of the bank increased to PKR 6,983mln (end-Dec22: PKR 5,890mln) attributable to enhanced profitability during the period. Consequently, the Capital Adequacy Ratio (CAR) of the bank increased to 16.24% (end-Dec22: 15.7%).

PKR mln

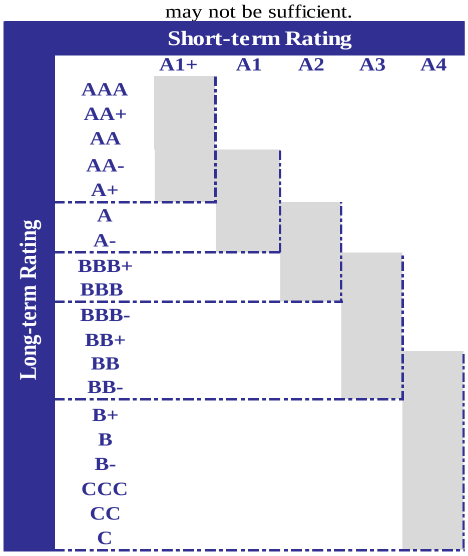
| Mobilink Microfinance Bank Limited | Dec-23 | Dec-22 | Dec-21 | Dec-20 |
|---|---|---|---|---|
| Public Unlisted | 12M | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | | |
| 1 Total Finances - net | 71,537 | 56,300 | 37,123 | 24,510 |
| 2 Investments | 33,388 | 8,347 | 13,266 | 12,074 |
| 3 Other Earning Assets | 18,429 | 5,611 | 3,241 | 5,419 |
| 4 Non-Earning Assets | 21,752 | 11,306 | 15,189 | 14,286 |
| 5 Non-Performing Finances-net | (727) | (86) | 341 | (287) |
| Total Assets | 144,379 | 81,478 | 69,159 | 56,003 |
| 6 Deposits | 119,286 | 64,765 | 58,658 | 46,807 |
| 7 Borrowings | 2,275 | 3,488 | - | - |
| 8 Other Liabilities (Non-Interest Bearing) | 15,835 | 7,335 | 4,360 | 3,792 |
| Total Liabilities | 137,396 | 75,588 | 63,018 | 50,599 |
| Equity | 6,983 | 5,890 | 6,141 | 5,404 |
| **B INCOME STATEMENT** | | | | |
| 1 Mark Up Earned | 30,662 | 17,335 | 11,082 | 6,683 |
| 2 Mark Up Expensed | (5,898) | (2,785) | (1,697) | (1,599) |
| 3 Non Mark Up Income | 10,395 | 6,513 | (364) | (106) |
| Total Income | 35,158 | 21,063 | 9,021 | 4,978 |
| 4 Non-Mark Up Expenses | (25,361) | (18,497) | (6,981) | (4,029) |
| 5 Provisions/Write offs/Reversals | (8,340) | (1,462) | (988) | (202) |
| Pre-Tax Profit | 1,458 | 1,104 | 1,052 | 747 |
| 6 Taxes | (424) | (146) | (324) | (216) |
| Profit After Tax | 1,033 | 958 | 728 | 530 |
| **C RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| Portfolio Yield | 55.3% | 45.8% | 30.4% | 25.7% |
| Minimum Lending Rate | 56.8% | 46.8% | 30.7% | 29.1% |
| Operational Self Sufficiency (OSS) | 106.4% | 104.9% | 110.9% | 112.8% |
| Return on Equity | 16.1% | 15.9% | 12.6% | 10.3% |
| Cost per Borrower Ratio | 10,398.5 | 8,054.1 | 4,976.5 | 5,119.1 |
| **2 Capital Adequacy** | | | | |
| Net NPL/Equity | -10.4% | -1.5% | 5.5% | -5.3% |
| Equity / Total Assets (D+E+F) | 4.8% | 7.2% | 8.9% | 9.6% |
| Tier I Capital / Risk Weighted Assets | 11.5% | 11.1% | 14.2% | 16.0% |
| Capital Adequacy Ratio | 16.2% | 15.7% | 16.1% | 17.8% |
| Capital Formation Rate [(Profit After Tax - Cash Dividend ) / Equity] | 17.5% | 15.6% | 13.5% | 10.9% |
| **3 Funding & Liquidity** | | | | |
| Liquid Assets as a % of Deposits & Short term Borrowings | 45.4% | 31.3% | 36.2% | 45.2% |
| Demand Deposit Coverage Ratio | 91.1% | 47.7% | 60.2% | 73.0% |
| Liquid Assets/Top 20 Depositors | 126.1% | 152.8% | 128.4% | 165.1% |
| Funding Diversification (Deposits/(Deposits+Borrowings+Grants)) | 98.1% | 94.9% | 100.0% | 100.0% |
| Net Advances to Deposits Ratio | 59.4% | 86.8% | 63.9% | 51.8% |
| **4 Credit Risk** | | | | |
| Top 20 Advances / Advances | 0.0% | 0.0% | 0.0% | 0.0% |
| PAR 30 Ratio | 7.0% | 4.4% | 3.2% | 0.3% |
| Write Off Ratio | 0.0% | 0.0% | 0.0% | 0.0% |
| True Infection Ratio | 7.0% | 4.4% | 3.2% | 0.3% |
| Risk Coverage Ratio (PAR 30) | 113.5% | 103.3% | 72.7% | 518.4% |

## Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

| Long-term Rating | |
|---|---|
| **Scale** | **Definition** |
| **AAA** | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| **AA+**<br>**AA**<br>**AA-** | **Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. |
| **A+**<br>**A**<br>**A-** | **High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions. |
| **BBB+**<br>**BBB**<br>**BBB-** | **Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. |
| **BB+**<br>**BB**<br>**BB-** | **Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met. |
| **B+**<br>**B**<br>**B-** | **High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. |
| **CCC**<br>**CC**<br>**C** | **Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default. |
| **D** | Obligations are currently in default. |

| Short-term Rating | |
|---|---|
| **Scale** | **Definition** |
| **A1+** | The highest capacity for timely repayment. |
| **A1** | A strong capacity for timely repayment. |
| **A2** | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. |
| **A3** | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial |
| **A4** | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |




**The correlation shown is indicative and, in certain cases, may not hold.*

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

## Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

**Rating Team Statements**
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

**Restrictions**
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

**Conduct of Business**
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

**Independence & Conflict of interest**
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

**Monitoring and review**
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)
**Probability of Default**
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)
**Proprietary Information**