



RATINGS (APRIL 2011)

TAMEER MICROFINANCE BANK LIMITED (TMBL)

INITIAL	
ENTITY	
Long term	A
Short term	A1

FINANCIAL DATA

PKR (mln)

	2010	2009	2008
Total Assets	5,279	2,789	2,295
Equity	1,323	1,074	1,196
Net Income	249	(122)	(195)
ROE (%)	20	n.m	n.m
Finances/Assets %	57.6	54.2	38.7
Equity/Assets (%)	25.1	38.5	52.1

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PROFILE

Tameer Microfinance Bank Limited (TMBL) is a majority owned subsidiary of Telenor Pakistan (51%). The bank was incorporated to provide micro-finance and related financial services to the less privileged and unbanked segment of the society, with an aim to contribute towards poverty eradication under the Microfinance Institution ordinance, 2001. The Bank currently has 40 branches, 18 service centers, 38 community centers, and 4 booths in the low-income areas within Pakistan.

The seven-member Board of Directors (BoD) comprises CEO TMBL, four nominees of Telenor. The other two members are non-executive directors. Mr. Nadeem Hussain, the CEO, has been serving in this capacity with the Bank since its inception in 2005. Prior to TMBL the CEO and most of the senior executives were associated with Citigroup. The CEO and the top management own 29% stake. This has led to sustainable development and execution of business strategy.

RATING RATIONALE & KEY DRIVERS

- The ratings of TMBL reflect its association with an established multinational telecom service provider – Telenor. The ratings recognize the effective risk management systems, secured nature of its majority loan book, and low level of delinquencies. The bank envisages establishing itself as one of the leading micro-finance institutions in the country by expanding its geographic coverage, while gradually enhancing its market share. Meanwhile, business partnership with the parent with regard to ‘Easypaisa’ helps in building a diversified revenue base. The bank’s bottom-line, which recently turned green, thereby preventing further erosion in equity base, provides comfort to the ratings.
- The ratings are dependent on the bank’s ability to sustain its asset quality while building fresh loan portfolio in line with its growth objectives. Meanwhile, continuing support from Telenor, particularly strengthening control framework and increasing integration to gain synergic benefits, would remain important. Any significant erosion in the bank’s asset quality, material change in collateral structure of loan book towards un-secured portfolio, or depletion in integration with Telenor may have negative implication on the ratings.

ASSESSMENT

- Microfinance sector, despite setbacks, has grown 19% during 2010, with total micro-credit portfolio standing at PKR 25.4bln, and the number of active borrowers reaching 2mln. However, profitability and key performance indicators of the sector remained weak due to limited scale of operations, and rising NPLs. Most of the microfinance lenders were affected by the devastating floods in the country during the latter half of 2010. In addition, socio-economic conditions including high inflation, power shortages, and prevalent law and order situation has hampered the repayment ability of micro-entrepreneurs and potential borrowers.
- Tameer Microfinance Bank despite subdued economic fundamentals increased its market share to 12% (2009: 7.1%), through significantly increasing its loan portfolio. Overall, the advances portfolio is heavily tilted towards Emergency loans constituting 67% of the total book, whereas business and group loan makeup 15% and 11% respectively, the rest is split between housing and leasing products. The main source of TMBL’s funding is its deposit base, constituting around 82% of the total funding at end-Dec 2010. The bank’s deposits are skewed (56%) towards time deposits with a moderate top-20 depositor concentration at 28%.
- The bank achieved break even in 2010, and posted profit before tax of PKR 7mln (2009: PKR - 119mln). The net interest revenue of the bank recorded sizeable increase (61%). The bank achieved robust returns in terms of ROA and ROE, mainly on account of available tax losses that boosted profit after tax significantly. The bank enjoys one of the highest spreads in the industry (2010: 16%, 2009: 14%) primarily on the back of high markup rates.
- In collaboration with Telenor Pakistan Limited, TMBL started a mobile-banking transaction service – money transfer, utility bills payment - in October 2009, branded as ‘Easypaisa’. This service enables any individual to use this service through any of banks branches and an extensive ‘Easypaisa’ Telenor agent network. ‘Easypaisa’ brand though owned by Telenor, has been major enterprise for the bank. Non-interest income due to this initiative, recorded significant upward trajectory, taking the non-interest income to PKR 194mln (2009: PKR 50mln), with PKR 51mln (net of agents commission) contribution coming from branch-less operations of ‘Easypaisa’. With increasing transactional volumes coupled with higher efficiencies, the revenue stream from this avenue is expected to increase.
- The bank maintains robust asset quality (NPLs as % of gross finances: 0.4%). More than two thirds of its portfolio is secured with cash equivalent assets. This is further supported by adequate risk management systems and procedures. The bank is expected to maintain its asset quality with low level of delinquencies, which would enable the bank to generate healthy bottom-line.
- With bank’s strategy to keep branch growth restricted; further expansion of its outreach is expected to come from the ‘Easypaisa’ partnership. In addition, the bank is expected to enhance quantum of its core business by introducing new products, and through targeting different demographics. These initiatives, while further strengthening its interest based income, would help in enhancing its fee based revenues.
- TMBL currently has a proprietary highly scalable core banking software installed which is directly integrated with Oracle Financial. In addition, the bank has AML Risk Secure suite for the management of risk department, along with other modules for HR, Product management, E-learning, and disaster recovery.
- TMBL has a strong capital structure, which is expected to be supplemented by healthy profitability in future years. In addition, with bank’s high capital adequacy ratio (2010: 38.7%), and fully provided NPLs, its capital is expected to remain strong, giving TMBL cushion to absorb any unforeseen losses.