

U Microfinance Bank Limited

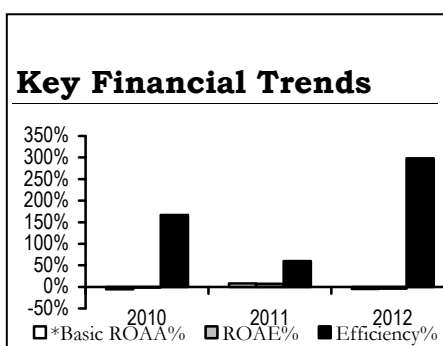
Chairman: Mr. Hamid Farooq; President/Chief Executive Officer: Mr. Arif Sirhindi

May 02, 2013

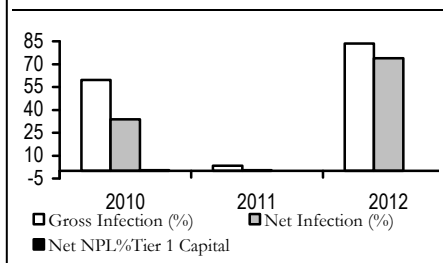
Analysts: Maimoon Rasheed
Usman Ali Khan

Category	Latest	Previous
Entity	BBB+/A-2 April 30, '13	BB+/A-3* April 23, '12
Outlook	Positive	N/A

*Under Rating Watch – Positive Status



* Based on recurring profit before provision and taxation



	2010	2011	2012
Net Financings (Rs. in m)	0.4	2.2	0.44
Deposits (Rs. in m)	24.0	7.1	5.6
Deposit Cost (%)	3.4	3.8	7.1
Profit / (Loss) (Rs. in m)	(3.7)	8.2	(26.1)
Equity (Rs. in m)	93.0	101.1	1,075
Liquid Assets to Deposits & Borrowings (x)	4.4	14.2	188
Net Infection (%)	33.8	0.5	73.2

Rating Rationale

U Microfinance Bank Limited (UMBL), formerly known as Rozgar Microfinance Bank Limited (RMBL), was acquired by Pakistan Telecommunication Company Limited (PTCL) in August 2012. UMBL is now a wholly owned subsidiary of PTCL, which is a primary telecom company in Pakistan. PTCL is co-owned by the Government of Pakistan and Etisalat International Pakistan (LLC) (Etisalat). The management control of PTCL also rests with the latter. Etisalat is the state owned telecom corporation of UAE.

RMBL's operations were restricted to a district level. The new sponsors injected equity into the bank in order to meet the minimum regulatory capital requirement to operate at a nationwide scale. Furthermore, to widen the scope of operations, business strategy of the bank was transformed that has been approved by the regulatory authority. Given the resources available with the sponsor, support is likely to be forthcoming in the event of an unforeseen contingency.

The bank intends to open 15 branches during 2013 while the branch network is planned to be extended further within a span of five years to 57 branches. As per the business plan, focus of the bank will primarily remain on stimulating branchless banking services such as person to person money transfer, loan disbursement & repayment, bill payments, etc. Pilot test of branchless banking is under progress while full-fledged branchless banking services are expected to commence by June-13, subject to approval from the State Bank of Pakistan. The vast agent network of PTCL and its wholly owned cellular company – Pakistan Telecommunication Mobile Limited (PTML) – is expected to provide impetus and synergic benefits to the bank in tapping mobile banking customers. However, building up transaction volumes may require time initially, which could affect projected profitability for 2013.

A measured pace of growth is forecasted in advances portfolio in the initial period. The bank has developed a policy framework for credit initiation, verification, approval and post disbursement monitoring. Segregation of these roles is envisaged in the credit policy document. Initially, the bank plans to rollout five products, including collateralized and unsecured loans, to cater to various needs of customers. Efficacy of policy framework in place will be tested once lending operations accelerate. Given that some time has elapsed between the development of credit policy manual and actual roll out of lending operations, on-ground changes in credit deployment strategy may need to be incorporated in policy manual.

With capital injection of Rs. 1 billion, high level of CAR currently provides room to absorb costs related to initial setup. While internal capital generation may remain weak in the first 2-3 years of operations, profitability is projected to gather momentum subsequently, primarily on the back of revenues from branchless banking operations. The bank's funding strategy is primarily reliant on generating deposits from branchless banking operations. The success of existing players in this area has been less than desired. The deposit mobilization ability of the bank itself will be tested over time. Funding support from sponsors may also be available, if required. Given the fresh equity injection, the amount of liquid reserves currently held on books is sizeable. These will be channelized into lending activities over time.

UMBL has deployed SAP based Sybase-365 as end-to-end branchless banking solution. The software will facilitate country-wide branchless and card-less network. Furthermore, to cater to core banking operations, the bank has implemented upgraded version of PIBAS banking solution. Meanwhile, disaster recovery plan/BCP is yet to be implemented.

Subsequent to the change in shareholding structure, the Board of Directors (BoD) has been reconstituted with new members having considerable experience in telecom and financial sector. The bank has inducted a professional management team with a mix of financial and microfinance sector background. The management team has been able to revamp the organizational setup in a short span of time. Stability in the management team would be tested over time.

Overview of the Institution

UMBL was incorporated in 2003 as a public limited, unlisted company. Following the acquisition by PTCL and subsequent equity injection, policy framework has been revamped and a business plan has been developed, which relies significantly on branchless banking operations in partnership with PTML. The accounts for 2012 have been audited by M/s Avais Hyder Liaquat Nauman & Co. Chartered Accountants. M/s A.F. Ferguson & Co. has been appointed as the auditor for the year ending December 31, 2013. JCR-VIS