



The Pakistan Credit Rating Agency Limited

Rating Report

Thardeep Microfinance Foundation

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Sep-2023	BBB-	A3	Stable	Downgrade	-
30-Sep-2022	BBB	A3	Stable	Maintain	Yes
30-Sep-2021	BBB	A3	Stable	Maintain	Yes
30-Sep-2020	BBB	A3	Stable	Maintain	Yes
08-Apr-2020	BBB	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects the adequate profile of the Thardeep Microfinance Foundation (herein referred to as “The Foundation” or “the MFI”) as a small-tier Foundation in the MFI (Microfinance Institution) sector of Pakistan. SECP is the Regulatory body for MFIs and they are governed through NBFC Rules, 2003 and NBFC Notified Entities Regulations, 2008. The principal activity of the Foundation is to mobilize funds for the provision of microfinance services to poor persons, particularly, poor women for mitigating poverty and promoting social welfare and economic justice through community building and social mobilization with the ultimate objective of poverty alleviation. The governance structure comprises sponsoring members who are also on the board of directors. The Foundation operates as a nonprofit organization, so its funding primarily comes from three sources: a) generating profits internally, b) borrowings, and c) receiving grants. Currently, the Foundation has availed 100% domestic borrowings. The automation and integration of processes to assess the real-time status of recoveries and disbursements through technological advancement is set forth to augment the control environment. The Foundation's Gross Loan Portfolio (GLP) has shown a 9.5% YOY basis growth and stood at PKR 3.5bln. The portfolio disbursement is dominated in interior Sindh and the risk of non-performing loans may escalate mainly on the challenges specific to the geographical allocation of the portfolio. During FY23, the Foundation reported a net markup income of PKR 355mln, a decrease compared to PKR 601mln in FY22. This decline is attributed to the surge in the cost of funds and reflects the non-transferability of product pricing to the end consumer. These factors coupled with an increase in operating and administrative expenses have contributed to a loss after tax of PKR ~130mln. This started consuming the equity and has caused depleting equity levels which ultimately put pressure on the cost structure and ratings of the entity. The PAR (Portfolio at risk) stood at 5.0% which is quite high with respect to the industry average and has deteriorated the credit risk profile of the Foundation. The industry's loan portfolio requires prudent management mainly on the back of the consistent surge in the policy rate. However, going forward the impact of gross lending rate on the financial risk profile specifically on NPLs (Non-performing Loans) is being evaluated in due course of time. The restriction on the mobilization of deposits has demarcated and supplemented the risk absorption capacity while triggering the funding constraints. Despite the hyperinflationary environment and other microeconomic challenges specifically the consistent surge in KIBOR which ultimately elevated the cost of funds for MFIs, the portfolio at risk (PAR) > 30 days of MFIs has shown an improvement and reduced to 3.0% (4QCY22: 4.2%) mainly on the back of the recoveries in the flood-impacted portfolios.

The ratings are dependent on the Foundation's ability to provide comfort on asset quality through efficient management of PAR. The augmentation of the profitability matrix to strengthen the equity base remains critical.

Disclosure	
Name of Rated Entity	Thardeep Microfinance Foundation
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Microfinance Institution Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Microfinance(Sep-22)
Rating Analysts	Muhammad Harris Ghaffar harris.ghaffar@pacra.com +92-42-35869504

Profile

Structure Thardeep Microfinance Foundation (Thardeep) is a not-for-profit organisation, registered under section 42 of the Companies Act, as a Microfinance provider, by Securities and Exchange Commission of Pakistan (SECP).

Background Thardeep has its origins since 1998 as a community loans provider through a donor-funded relief project which then became a Rural Support Programme (RSP). These loans were given out by the Thardeep Rural Development Programme (TRDP) initially in Tharparkar, which extended to other districts of Sindh. In 2003, Thardeep Rural Development Programme (TRDP) demerged its Micro Credit and Enterprise Development Unit and incorporated a separate entity namely Thardeep Microfinance Foundation (the Company) on October 06, 2016 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).

Operations Thardeep operates at a district level with a network of over 73 branches. The principal activity of the Company is to mobilize funds for provision of microfinance services to poor persons, particularly, poor women for mitigating poverty and promoting social welfare and economic justice through community building and social mobilization with the ultimate objective of poverty alleviation

Ownership

Ownership Structure Thardeep has seven (7) founding members, including few nominated from TRDP, who, have no shareholding in the organization.

Stability Since the ideology behind a not-for-profit organization is community welfare therefore association of members is more of voluntary. Henceforth, succession planning is least expected in such a foundation.

Business Acumen Thardeep members profile has experienced professionals with multifaceted skill set to direct the foundation in achieving its objectives.

Financial Strength As the foundation is a registered not-for-profit organization the probability to get financial support from members is low.

Governance

Board Structure Overall control vest in the seven members of the board with two female directors and five male directors. Non of the directors is part of the top tier management.

Members' Profile The members profile of Thardeep's board is enriched with well-diversified experienced professionals, who have been involved in community-based services previously. The Chairman - Dr. Naseer Muhammad Nizamani, is a highly qualified Physician with more than two (2) decades of experience in various renowned institutions including UNICEF & UNFPA.

Board Effectiveness There are three sub-committees, namely (i) Audit Committee, (ii) IT Committee and (iii) Human Resource Committee. Attendance during the meetings was good and minutes were properly documented.

Transparency BDO Ebrahim & Co are the External Auditors of Thardeep. The auditors are on the QCR list as well as categorized - 'A' on the list of SBP approved auditors.

Management

Organizational Structure Thardeep has a decentralized organization structure where the decision-making power is distributed, and the sections and divisions have different degrees of independence.

Management Team Thardeep has a mix of diverse experience and skilled management. Mr. Sono Khangharani, the CEO, is one of the founding members having an experience of over three decades. Mr. Sono's professional career started in late 1982 as a teacher (lecturer) at Agriculture University Tando Jam Sindh. All members have been associated with Thardeep since its inception.

Effectiveness The foundation has a systematic decision-making process. Each department head ensures the smooth running of their department and they meet the Chief Executive Officer to discuss material matters.

MIS The departments are integrated which helps in effective decision making. For a way forward, Thardeep is in the process of establishing a proper ERP system within the organization and is currently in collaboration with Aritech.

Risk Management Framework There exist a separate Risk & Compliance Department where every risk oriented factor is being catered. Compliance department also conducts regular inspection of all relevant departments on monthly/quarterly basis. Internal Audit Department exists that reports directly to the Audit Committee.

Technology Infrastructure Thardeep has a profound technological stature in place, which gives an edge to the foundation. Sophisticated automated system processes established throughout the organization with paperless environment. There is an Electronic Financial information System (e-FIS) that is used for efficient generation of money transactions. Furthermore, Thardeep has acquired cloud hosting service from an international vendor Microsoft Azure.

Business Risk

Industry Dynamics During 1QCY23, the microfinance industry which includes MFIs, MFBs & RSP in Pakistan has shown a growth of 3.7% from 4QCY22 to 1QCY23 in terms of Gross Loan Portfolio (GLP). The GLP stood at PKR 509.6bln during 1QCY23 (4QCY22: PKR 491.3bln). The GLP portfolio of MFI reached PKR 88.528bln with an active borrower base of 2.3bln as of 1QCY23. Currently, in Pakistan, there are 24 dedicated Microfinance institutions primarily operating which provide specialized microfinance services. The portfolio at risk (PAR) > 30 days of MFI has shown an improvement and reduced to 3.0% (4QCY22: 4.2%) mainly on the back of the recoveries in the flood-impacted portfolios. The hyperinflationary environment has also impacted the MFI sector which is evident by a PKR 1.7bln surge in disbursements (1QCY23: PKR 31.8bln; 4QCY22: PKR 30.1bln) and PKR 3,282 hike in average loan size (1QCY23: PKR 59,628, 4QCY22: PKR 56,346). In the overall microfinance industry as of 1QCY23, HBL MFB is the market leader with a GLP of PKR 92.2bln followed by KBL PKR 89.1bln.

Relative Position Thardeep is a relatively small-tier player in the Microfinance sector. Sponsors has presence in the same domain since 1998. Thardeep holds ~1% of the market share in terms of GLP as at June'21 and relies on internal capital and external borrowing to finance its portfolio. Currently, Thardeep has around 87K active borrowers at FY22. Thardeep has geographical presence in 19 districts.

Revenue Thardeep earned an interest income of PKR 1.26bln in FY23 which shows a growth of 8.06% as compared to the same period last year (FY22: PKR 1.16bln). Interest income is 100% from advances.

Profitability Thardeep recorded a loss of PKR -130mln in FY23, it had shown negative growth as compared to the same period last year (FY22: profit after tax of PKR 65mln), attributable to an increase in the cost funds followed by operating expenses. The spread has also decreased to 8.6% (FY22: 13.3%) due to a hike in the cost of funds and non-transferability of the product pricing (rate of return on lending).

Sustainability Thardeep Foundation, going forward, has a plan to enhance its market footprint along with consolidation in the existing branch network.

Financial Risk

Credit Risk Credit risk remains high, as reflected in Jun'23, higher Portfolio at Risk (PAR), owing to geographical concentration. Thardeep's PAR is recorded at 5.3% during FY23, as compared to the same period last year (FY22: 4.9%). Whereas, the infection ratio has remained stagnant at 5% as at end-Jun'23.

Market Risk The investment book of the Foundation comprises short-term - Term Deposit Receipts (HBL & MCB) amounting to PKR 746mln from HBL and PKR 400mln from MCB as at end-Jun'23. The total short-term investments amount to PKR 1.14bln.

Funding At Jun'23 long-term loans of Thardeep largely included loans from PMIC of 1.8bln and PKR 332mln from SBP. There is also the subordinated loan of PKR 400mln from TRDP.

Cashflows & Coverages Thardeep's liquid assets were recorded at PKR 639mln (FY22: PKR 152mln) showing an increasing trend on the back of increased non-earning and earning assets. However, Thardeep needs to assess its liquidity position and improve it by placing more funds in liquid assets to meet unexpected demands.

Capital Adequacy As at end-Jun'23, the equity to total assets stood at 5.8% (at end-Jun'22: 9.1%), which was considered adequate with respect to the peers. This decline is attributable to plunged equity on the back of losses during FY23. As of FY23, the equity stood at PKR 358mln (FY22: PKR 538mln).



Thardeep Microfinance Foundation
MFI

Jun-23	Jun-22	Jun-21
12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	3,505	3,604	3,254
2 Investments	-	-	-
3 Other Earning Assets	1,678	1,234	1,153
4 Non-Earning Assets	1,215	1,102	870
5 Non-Performing Finances-net	(7)	(7)	(120)
Total Assets	6,391	5,933	5,158
6 Deposits	-	-	-
7 Borrowings	5,570	5,039	4,406
8 Other Liabilities (Non-Interest Bearing)	464	356	279
Total Liabilities	6,034	5,395	4,685
Equity	358	538	473

B INCOME STATEMENT

1 Mark Up Earned	1,260	1,166	1,101
2 Mark Up Expensed	(905)	(564)	(490)
3 Non Mark Up Income	292	229	281
Total Income	647	831	892
4 Non-Mark Up Expenses	(667)	(655)	(674)
5 Provisions/Write offs/Reversals	(109)	(111)	(72)
Pre-Tax Profit	(130)	65	147
6 Taxes	-	-	-
Profit After Tax	(130)	65	147

C RATIO ANALYSIS

1 Performance

Portfolio Yield	33.7%	32.7%	32.1%
Minimum Lending Rate	45.0%	37.3%	35.8%
Operational Self Sufficiency (OSS)	74.9%	87.7%	89.5%
Return on Equity	-29.0%	12.9%	41.6%
Cost per Borrower Ratio	N/A	N/A	N/A

2 Capital Adequacy

Net NPL/Equity	-1.9%	-1.2%	-25.3%
Equity / Total Assets (D+E+F)	5.6%	9.1%	9.2%
Tier I Capital / Risk Weighted Assets	N/A	N/A	N/A
Capital Adequacy Ratio	N/A	N/A	N/A
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	-24.1%	13.8%	63.2%

3 Funding & Liquidity

Liquid Assets as a % of Deposits & Short term Borrowings	47.7%	12.3%	30.8%
Demand Deposit Coverage Ratio	N/A	N/A	N/A
Liquid Assets/Top 20 Depositors	N/A	N/A	N/A
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	0.0%	0.0%	0.0%
Net Advances to Deposits Ratio	N/A	N/A	N/A

4 Credit Risk

Top 20 Advances / Advances	0.0%	0.0%	0.0%
PAR 30 Ratio	5.0%	4.9%	2.5%
Write Off Ratio	0.0%	0.0%	0.0%
True Infection Ratio	5.0%	4.9%	2.5%
Risk Coverage Ratio (PAR 30)	103.7%	103.6%	243.7%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
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.
AA-	
A+	
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.
A-	
BBB+	
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.
BBB-	
BB+	
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.
BB-	
B+	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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(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

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- 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

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- (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).
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- (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)
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- (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)
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- (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)

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- (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 | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

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