



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
25-Sep-2024	BB	A4	Stable	Downgrade	-
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

Thardeep Microfinance Foundation (referred to as “The Foundation” or “the TMF”) is a small-tier organization within Pakistan’s microfinance sector. The Securities and Exchange Commission of Pakistan (SECP) serves as the regulatory body for MFIs, governing them under the Non-Banking Financial Companies (NBFC) Rules, 2003, and the NBFC Notified Entities Regulations, 2008. The primary activity of the Foundation is to mobilize funds to provide microfinance services to impoverished individuals, particularly women, in order to mitigate poverty and promote social welfare and economic justice through community building and social mobilization, ultimately aiming for poverty alleviation. The governance structure consists of sponsoring members serving as the board of directors. As a nonprofit organization, the Foundation’s funding primarily comes from three sources: a) internal profit generation, b) borrowings, and c) grants. Currently, the Foundation relies entirely on domestic borrowings. To enhance control, the organization is implementing technological advancements to automate and integrate processes for real-time monitoring of recoveries and disbursements. The revised ratings of the Foundation reflect a decline in asset quality, insufficient liquidity, a high infection ratio, and funding constraints from the lenders. The Gross Loan Portfolio (GLP) has decreased by 27% year-over-year, now standing at PKR 2.6bln. Portfolio disbursements are concentrated in interior Sindh, where the risk of non-performing loans has escalated due to geographic challenges, climate change-related flooding, and high inflation and interest rates that have cumulatively eroded the consumers' disposable income. During FY24, the Foundation reported a gross loss of approximately PKR ~77.2mln, compared to a gross income of PKR ~344mln in FY23. This decline is attributed to reduced interest income and increased funding costs, reflecting the inability to transfer product pricing to end consumers. Consequently, the Foundation experienced a net loss of PKR ~261mln in FY24, as compared to a loss of PKR ~133mln in FY23. This ongoing loss trend has depleted equity levels, putting further pressure on the entity's cost structure and credit ratings. The Portfolio at Risk (PAR) stands at 3.7%, significantly above the industry average, further deteriorating the Foundation's credit risk profile. A definitive strategy is needed to address these multiple challenges, and continued support from the sponsors will remain crucial.

Ratings are dependent on the foundations' 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(Oct-23),Methodology Rating Modifiers(Apr-24),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study Microfinance(Sep-23)
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Profile

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

Background TMF 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 TMF operates at a district level with a network of over 67 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 TMF 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 TMF 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 TMF'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 TMF. The auditors are on the QCR list as well as categorized - 'A' on the list of SBP approved auditors. Audit of FY24 is in process.

Management

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

Management Team TMF has a mix of diverse experience and skilled management. Mr. Sono Khanharani, 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 TMF 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, TMF 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 TMF 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, TMF has acquired cloud hosting service from an international vendor Microsoft Azure.

Business Risk

Industry Dynamics The Sector's Gross Loan Portfolio (GLP) clocked in at PKR~408bln as at 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 whereas the growth rate stood at ~61.8%. Deposit base of the sector clocked in at PKR~597bln as at Dec'23, up ~15.8% YoY (Dec'22: PKR~516bln).

Relative Position TMF is a relatively small-tier player in the Microfinance sector. Sponsors has presence in the same domain since 1998. TMF holds ~1% of the market share in terms of GLP as at June'24 and relies on internal capital and external borrowing to finance its portfolio. Currently, TMF has around 62K active borrowers at FY24. Thardeep has geographical presence in 19 districts.

Revenue TMF earned an interest income of PKR ~1.08bn in FY24 as compared to the same period last year (FY23: PKR 1.2bn). Interest income is 100% from advances.

Profitability TMF recorded a loss of PKR -261mln in FY24 (FY23: Loss of PKR -130mln), it attributes to an increase in the cost funds followed by decreased interest income. The spread has also decreased to negative -0.3% (FY23: ~8.1%) due to a hike in the cost of funds and non-transferability of the product pricing (rate of return on lending).

Sustainability Thardeep Microfinance 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 of TMF remains high, as reflected in June 24, higher Portfolio at Risk (PAR), owing to geographical concentration. TMF's PAR is recorded at ~3.7% during FY24, as compared to the same period last year (FY23: 5.0%). Whereas, the infection ratio remained at ~4% as at June 24 (FY23: ~5%).

Market Risk The investment book of the Foundation comprises short-term - Term Deposit Receipts (HBL, MCB, BOP, & Saudi Pak Bank) amounting to PKR ~679mln from HBL, PKR ~400mln from MCB, PKR ~306mln from BOP and PKR ~390mln from Saudi Pak Bank as at end-Jun'24. The total short-term investments amount to PKR 1.7bln.

Funding At June-24 long-term loans of TMF mainly includes loans from PMIC of ~919mln and PKR ~570mln from SBP. There is also the subordinated loan of PKR 400mln from TRDP.

Cashflows & Coverages TMF's liquid assets were recorded at PKR ~401mln as on June 24 (FY23: PKR 639mln). Company 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-June'24, the equity to total assets stood at ~2.3% (at end-Jun'23: 5.6%), which was considered adequate with respect to the peers.



A BALANCE SHEET

1 Total Finances - net	3,818	4,572	4,498
2 Investments	-	-	-
3 Other Earning Assets	1,868	1,678	1,234
4 Non-Earning Assets	585	334	296
5 Non-Performing Finances-net	(213)	(191)	(194)
Total Assets	6,057	6,393	5,834
6 Deposits	-	-	-
7 Borrowings	5,635	5,830	5,149
8 Other Liabilities (Non-Interest Bearing)	277	208	195
Total Liabilities	5,912	6,038	5,344
Equity	145	354	490

B INCOME STATEMENT

1 Mark Up Earned	1,087	1,259	1,162
2 Mark Up Expensed	(1,160)	(914)	(567)
3 Non Mark Up Income	355	292	257
Total Income	282	636	852
4 Non-Mark Up Expenses	(521)	(661)	(684)
5 Provisions/Write offs/Reversals	(23)	(109)	(149)
Pre-Tax Profit	(261)	(133)	19
6 Taxes	-	-	-
Profit After Tax	(261)	(133)	19

C RATIO ANALYSIS

1 Performance

Portfolio Yield	25.9%	27.8%	29.7%
Minimum Lending Rate	40.6%	37.1%	35.7%
Operational Self Sufficiency (OSS)	63.9%	74.7%	83.0%
Return on Equity	-104.6%	-31.6%	4.0%
Cost per Borrower Ratio	N/A	N/A	N/A

2 Capital Adequacy

Net NPL/Equity	-147.5%	-53.8%	-39.5%
Equity / Total Assets (D+E+F)	2.4%	5.5%	8.4%
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]	-73.6%	-27.2%	4.1%

3 Funding & Liquidity

Liquid Assets as a % of Deposits & Short term Borrowings	30.2%	47.7%	12.3%
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	0.0%	0.0%	0.0%
Write Off Ratio	0.0%	0.0%	0.0%
True Infection Ratio	0.0%	0.0%	0.0%
Risk Coverage Ratio (PAR 30)	231.9%	231.9%	231.9%

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	Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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	
AA-	
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	
A-	
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	
BBB-	
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	
BB-	
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	
B-	
CCC	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.
CC	
C	
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 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.*

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

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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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- (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)
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- (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)

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