



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
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 ('Thardeep' or the 'Foundation') is a Microfinance Institution (MFI) governed by the Securities & Exchange Commission of Pakistan under Section 42 of the Companies Ordinance, 1984 (now Companies Act, 2017). The Foundation is licensed to operate under NBFC (Establishment and Regulations) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations 2008. It has been in operations since 2016, with early footprints as Thardeep Rural Development Programme (TRDP). The key element is that MFIs are not permitted to mobilize deposits, while they are also not backed by any stakeholder equity due to their status of "Companies Limited by Guarantee". These two elements, in combination, provide funding constraints, while they also delimit the boundaries of risk. Thardeep is a not-for profit organization, hence, the source of funding comprises a) internal generation of profits, b) loans and c) grants. Second major source of funding is borrowings, for which the Foundation majorly relies on both local and foreign avenues including PMIC & SIMA. Governance structure comprises of sponsoring members who are also the board of directors. The ratings also incorporate the concentration of business at regional level and vulnerability in business due to low market share. Credit risk reflected by Portfolio At Risk (PAR) remains at the same level compared YoY attributable to the relatively intact asset quality. Total income of the foundation recorded increase and decline in provisioning expense supplemented the profitability. Rating Watch encompass ramifications emerging from Covid-19 outbreak and related implications on the portfolio. Covid-19 has posed challenges to the microfinance sector, almost all segments of the economy, were negatively impacted. Meanwhile, for mitigating the affect of Covid-19, the central bank has taken comprehensive actions including reduction in key policy rates and deferment of repayment obligations for a defined period.

The ratings are dependent on the Foundation's aptness to sustain positive performance indicators amidst growth in business volumes. Meanwhile, the propensity of the business to guard itself against the current economic turmoil is imperative. Its vital to achieve sustainable profitability along with improvement in the asset quality.

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-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Microfinance(Sep-20)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Structure Thardeep Microfinance Foundation (Thardeep) 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 Thardeep has its origins since 1998 as community loans provider through a donor funded relief project which then became a Rural Support Programme (RSP). These loans were given out by Thardeep Rural Development Programme (TRDP) initially in Tharparkar, which extended to other districts of Sindh. In 2003, TRDP signed its first agreement with Pakistan Poverty Alleviation Fund (PPAF) and enhanced its operations, particularly its Microcredit portfolio, to more parts of Tharparkar and Umerkot Districts. By late 2016, TRDP's Microcredit programme converted into an independent organization.

Operations Thardeep operates at a district level with a network of over 82 branches. The foundation provides Microcredit to under privileged community with a maturity of less than or equal to one year. Most of the foundation's portfolio is concentrated in Tharparkar, Sindh. Foundation's clientele largely comprises female entrepreneurs with small businesses.

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. Succession planning in such foundations is least expected.

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. There lies an appropriate mix of Independent and non independent members.

Members' Profile The member's 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 is considered good and minutes were 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's approved auditors.

Management

Organizational Structure Thardeep has a decentralized organizational structure where the decision-making power is distributed. 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) in Agriculture University Tando Jam Sindh. Mr Sanjai, a finance professional ably looks after the Risk & Compliance aspects of the business. All members are associated with Thardeep since its inception.

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

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 exists 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 processes are 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 Pakistan Microfinance Industry (MFI) comprises of 32 microfinance providers including 21 microfinance institutions (MFIs). Active Borrowers exceeded pre-COVID figures as 7.6 million borrowers were achieved during 3MCY21, an increase of 4% compared to 3MCY20. Similarly, the GLP surpassed PKR 340 billion during 3MCY21, an increase of 10% compared to the GLP in Q1 last year. The growth in active borrowers and GLP continues to be driven by the MFB peer group as they managed to add over 614,000 clients and PKR 11 billion in GLP. NBMFC peer group also contributed to portfolio growth with an addition of PKR 4.7 billion, led by Kashf and NRSP. The PAR>30 days increased from 3.7% to 4.5% as the infection ratio for MFBs rose from 3.3% to 4% and for NBMFCs from 4.9% to 5.6%.

Relative Position Thardeep is a relatively small player in the microfinance sector and holds ~1% of the market share in terms of GLP as at Jun-21.

Revenue During FY21, total income of the foundation increased to PKR 892mln (FY20: PKR 637mln), up 40% YoY where mark up earned remained largely same and mark up expenses recorded decline. Non markup expenses increased to PKR 674mln (FY20: PKR 598mln) and provisioning expenses declined significantly.

Profitability Borrowing cost of the foundation declined and the foundation recorded net profitability of PKR 147mln (FY20: PKR 211mln loss).

Sustainability Thardeep's management has a growth-centric approach through market penetration by way of expansions. Management has a devised plan to achieve its objectives. Geographical limitation and high interest rates amidst macro-economic instability would be a key challenge going forward.

Financial Risk

Credit Risk Thardeep's operations remain focused on low and middle income self-employed borrowers, who are relatively more vulnerable to economic cycles. Given the current scenario and the ramifications of the COVID-19 pandemic, the foundation's prudent strategy is being reflected in the slight attrition of GLP which stood at PKR 3,254mln (end-Jun20: PKR 3,476mln). Portfolio at Risk (PAR) stands at 2.5% for end-Jun21 which largely remained same compared YoY.

Market Risk Higher finance cost of the foundation as all local long term borrowing carry floating interest rate and highly competitive market find it difficult to pass on the impact of higher cost of funds. However, Thardeep has a policy to hedge all foreign currency exposures, which is beneficial for the foundation in current environment.

Funding The Foundation's funding mix mostly constitutes long term loans from both local and foreign borrowers. Total funding of the foundation as at end-Jun21 reduced to PKR 4.4bln (end-Jun20: PKR 5.1bln) while the advances to funding ratio also fell to 65.5% (FY20: 68.4%), due to the recent pause in disbursement owing to disruptive events.

Liquidity Thardeep's liquidity position has improved as the liquidity ratio stood at 27.4% as compared to 24.5% at end-Jun20. This is mainly due to increase in investments at end-Jun21.

Capital Adequacy Unlike for Microfinance Banks, SECP has no minimum requirement for Microfinance Institutions, with respect to CAR. The total funds and reserves of the Foundation as at end-Jun21 amounted to PKR 473mln (end-Jun20: PKR 232mln).



PKR mln

Thardeep Microfinance Foundation
UnListed Public Limited

Jun-21	Jun-20	Jun-19	Jun-18
12M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	3,254	3,476	4,137	3,448
2 Investments	996	982	839	675
3 Other Earning Assets	157	173	461	386
4 Non-Earning Assets	870	974	931	364
5 Non-Performing Finances-net	(120)	(4)	(27)	(22)
Total Assets	5,158	5,601	6,340	4,851
6 Deposits	-	-	-	-
7 Borrowings	4,406	5,083	5,610	4,337
8 Other Liabilities (Non-Interest Bearing)	279	286	286	120
Total Liabilities	4,685	5,368	5,897	4,458
Equity	473	232	444	393

B INCOME STATEMENT

1 Mark Up Earned	1,101	1,218	1,123	789
2 Mark Up Expensed	(490)	(790)	(525)	(325)
3 Non Mark Up Income	281	210	263	154
Total Income	892	637	862	617
4 Non-Mark Up Expenses	(674)	(598)	(752)	(448)
5 Provisions/Write offs/Reversals	(72)	(251)	(56)	(14)
Pre-Tax Profit	147	(211)	54	155
6 Taxes	-	-	-	-
Profit After Tax	147	(211)	54	155

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	11.4%	7.2%	10.7%	12.3%
Non-Mark Up Expenses / Total Income	75.5%	93.8%	87.3%	72.6%
ROE	41.6%	-62.6%	12.8%	49.2%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	9.2%	4.1%	7.0%	8.1%
Capital Adequacy Ratio	N/A	N/A	N/A	N/A

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	27.4%	24.5%	27.9%	25.2%
(Advances + Net Non-Performing Advances) / Deposits	N/A	N/A	N/A	N/A
Demand Deposits / Deposits	N/A	N/A	N/A	N/A
SA Deposits / Deposits	N/A	N/A	N/A	N/A

4 Credit Risk

Non-Performing Advances / Gross Advances	2.5%	2.4%	1.0%	0.0%
Non-Performing Finances-net / Equity	-25.3%	-1.6%	-6.0%	-5.7%

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+	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+	
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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

- 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

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- (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.
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- (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)

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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)
- (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 | 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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