

## Date

30-Sep-22

## Analyst

Sehar Fatima  
sehar.fatima@pacra.com  
+92-42-35869504  
www.pacra.com

## Applicable Criteria

- Methodology | Microfinance Institution Rating | Jun-22
- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jun-22
- Methodology | Rating Modifiers | Jun-22

## Related Research

- Sector Study | Microfinance | Sep-22

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## PACRA Maintains Entity Ratings of Thardeep Microfinance Foundation

Rating Type	Entity	
	Current (30-Sep-22)	Previous (30-Sep-21)
<b>Action</b>	Maintain	Maintain
<b>Long Term</b>	BBB	BBB
<b>Short Term</b>	A3	A3
<b>Outlook</b>	Stable	Stable
<b>Rating Watch</b>	Yes	Yes

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 operation 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. The Foundation is a not-for-profit organization; hence, the source of funding comprises a) internal generation of profits, b) loans and c) grants. The second major source of funding is borrowings, for which the Foundation majorly relies on both local and foreign avenues including PMIC & SIMA. The governance structure comprises sponsoring members who are also the board of directors. The ratings also incorporate the concentration of business at the regional level and vulnerability in business due to low market share. Credit risk reflected by Portfolio at Risk (PAR) has increased YoY attributable to the relatively low asset quality, hence, the Rating Watch which encompasses ramifications emerging from the most recent flood situation in the areas where the foundation is majorly operating. The impact is being evaluated and would translate into an emergent financial risk profile. The portfolio coverage ratio diluted YoY, however, remains good. The profitability of the Foundation dipped attributable to decreased total income and increased provisioning expense. Going forward, the improvement in asset quality remains essential.

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.

## About the Entity

Thardeep Microfinance Foundation was incorporated with the Securities and Exchange Commission of Pakistan (SECP) in 2016 as a Public Company Limited by Guarantee under Section 42 of the Companies Ordinance, 1984 (now Companies Act, 2017). It is also licensed by the SECP under Non-Banking Finance Companies Rules, 2003. The overall control of the Foundation vests with a seven member Board of Directors. Dr. Naseer Muhammad Nizamani is the Chairman of the Board, while Mr. Sono Khangharani is the CEO of the Foundation.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

