

**Date**

25-Sep-24

**Analyst**

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**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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**PACRA Revises Entity Ratings of Thardeep Microfinance Foundation**

Rating Type	Entity	
	Current (25-Sep-24)	Previous (26-Sep-23)
<b>Action</b>	Downgrade	Downgrade
<b>Long Term</b>	BB	BBB-
<b>Short Term</b>	A4	A3
<b>Outlook</b>	Stable	Stable
<b>Rating Watch</b>	-	-

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.

**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. The overall control of the Foundation vests with a seven-member BOD. Dr. Naseer Muhammad Nizamani is the Chairman of the Board, while Mr. Sono Khangharani is the CEO.

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.