



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-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 ('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.

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(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Microfinance(Sep-22)
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 in 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 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 expands 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 The Foundation operates at a district level with a network of over 84 branches. The foundation provides Microcredit to the underprivileged 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 a few nominated from TRDP, who, has no shareholding in the organization.

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

Business Acumen Thardeep members profile has experienced professionals with a 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 an appropriate mix of Independent and non-independent.

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 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 The Foundation 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) 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 the smooth running of their department and they meet 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. The compliance department also conducts regular inspections of all relevant departments on a monthly/quarterly basis. An 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 are established throughout the organization with a paperless environment. There is an Electronic Financial Information System (e-FIS) that is used for the efficient generation of money transactions. Furthermore, Thardeep has acquired a cloud hosting service from an international vendor Microsoft Azure.

Business Risk

Industry Dynamics Pakistan Microfinance Industry (MFI) comprises 50 microfinance providers including 30 microfinance institutions (MFIs). During CY21, active borrowers of the industry exceeded the pre-COVID figure to 8.1 million borrowers after recording a growth of 16% compared to CY20. Similarly, the GLP surpassed PKR 390 billion during CY21, an increase of 21% compared to CY20. The growth in active borrowers and GLP continues to be driven by the MFB peer group as they managed to add over one million clients and PKR 52 billion in GLP. NBMFC peer group also contributed to portfolio growth with an addition of PKR 16.7 billion. In the case of MFBs, PAR > 30 days increased to 5.1% (CY20: 3.3%) on account of the expiration of the loan deferment period allowed by SBP. However, the PAR > 30 days of MFIs recovered to report at 2.9% in CY21 (CY20: 4.7%).

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

Revenue The Foundation earned an interest income of PKR 1,166mln in FY22 which shows a slight growth of ~5.9% as compared to the same period last year (FY21: PKR 1,101mln). Net markup income declined to PKR 601mln attributable to increased mark up expensed during FY22. Other income of the foundation also declined to PKR 229mln (FY21: PKR 281mln).

Profitability During FY22, the profitability declined to PKR 65mln in FY22 (FY21: PKR 147mln), attributable to increased provisioning expense and low non-mark-up income. The spread has also decreased to 23.1% (FY21: 27.7%) due to a decline in the asset yield of the foundation.

Sustainability Thardeep Foundation, going forward, has 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 June'22, higher Portfolio at Risk (PAR), owing to geographical concentration. Thardeep's PAR stood at ~4.9% during FY22 as compared to the same period last year (FY21: ~2.5%). As of end-June'22 GLP amounted to PKR~3,791mln (FY21: PKR~3,254mln). The infection ratio as of FY22 rose to ~5.0% (FY21: 2.5%). Going forward, it's essential to keep the infection in check, especially with reference to the flood situation and its relevant repercussions in the country.

Market Risk The investment book of the Foundation comprises short term - Term Deposit Receipts (HBL & MCB) amounting to PKR 1,126mln as at end-Jun22.

Funding In Jun'22 long-term loans of the Foundation largely includes loans from PMIC of 1.6bln and PKR 72.8mln from SBP. There is also subordinated loan of PKR 400mln from TRDP. The total debt of the foundation decreased as of FY22 is amounted to PKR ~5.3bln (FY21: PKR~4.7bln).

Cashflows & Coverages Thardeep's liquid assets were recorded at PKR 152mln (FY21: PKR 209) showing a decreasing trend. The Foundation needs to assess its liquidity position and improve it by the placement of more funds in liquid assets to meet unexpected demands.

Capital Adequacy Unlike MFBs, MFIs are not regulated to maintain a certain CAR percentage at 15%. The equity base of the foundation stood at PKR~538mln as of June'22.



Thardeep Microfinance Foundation
Un-Listed Public Limited

Jun-22	Jun-21	Jun-20
6M	6M	6M

A BALANCE SHEET

1 Total Finances - net	3,604	3,254	3,476
2 Investments	1,126	996	982
3 Other Earning Assets	108	157	173
4 Non-Earning Assets	1,102	870	974
5 Non-Performing Finances-net	(7)	(120)	(4)
Total Assets	5,933	5,158	5,601
6 Deposits	-	-	-
7 Borrowings	5,039	4,406	5,083
8 Other Liabilities (Non-Interest Bearing)	356	279	286
Total Liabilities	5,395	4,685	5,368
Equity	538	473	232

B INCOME STATEMENT

1 Mark Up Earned	1,166	1,101	1,218
2 Mark Up Expensed	(564)	(490)	(790)
3 Non Mark Up Income	229	281	210
Total Income	831	892	637
4 Non-Mark Up Expenses	(655)	(674)	(598)
5 Provisions/Write offs/Reversals	(111)	(72)	(251)
Pre-Tax Profit	65	147	(211)
6 Taxes	-	-	-
Profit After Tax	65	147	(211)

C RATIO ANALYSIS

1 Performance

Portfolio Yield	60.5%	67.7%	64.5%
Minimum Lending Rate	69.0%	75.5%	87.2%
Operational Self Sufficiency (OSS)	87.7%	89.5%	74.4%
Return on Equity	25.4%	66.0%	-124.9%

2 Capital Adequacy

Net NPL/Equity	-1.2%	-25.3%	-1.6%
Equity / Total Assets (D+E+F)	9.1%	9.2%	4.1%
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	26.7%	70.4%	-95.1%

3 Funding & Liquidity

Liquid Assets as a % of Deposits & Short term Borrowings	12.3%	30.8%	108.2%
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	0.0%	0.0%	0.0%

4 Credit Risk

PAR 30 Ratio	4.9%	2.5%	2.4%
True Infection Ratio	4.9%	2.5%	2.4%
Risk Coverage Ratio (PAR 30)	103.6%	243.7%	104.2%

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	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.

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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Rating Team Statements

(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 | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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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