# RATING REPORT

# Taleem Finance Company Limited

**REPORT DATE:**
September 11, 2024

**RATING ANALYSTS:**
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| RATING DETAILS | | |
|---|---|---|
| | Latest Rating | |
| Rating Category | Long-term | Short-term |
| Entity Rating | BBB | A-2 |
| Outlook/Rating Watch | *Stable* | |
| Rating Action | *Initial* | |
| ***Rating Date*** | *September 11, 2024* | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 2019** | **External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants |
| **Public Unlisted Company** | **Chairman:** Mr. Amjad Ali Arbab<br>**Chief Executive Officer:** Mr. Kamran Azim |
| **Key Shareholders (with stake 5% or more)** | |
| Gray Ghost Ventures Education Holdings LLC: 63.8% | |
| Insitor Impact Asia Fund PTE: 30.2% | |
| Mr. Kamran Azim: 5.6% | |

## APPLICABLE METHODOLOGY(IES)

**VIS Entity Rating Criteria: Non-Bank Financial Companies**
**https://docs.vis.com.pk/Methodologies%202024/NBFCs202003.pdf**

**VIS Issue/Issuer Rating Scale**
**https://docs.vis.com.pk/docs/VISRatingScales.pdf**

## Taleem Finance Company Limited

| OVERVIEW OF INSTITUTION | RATING RATIONALE |
|---|---|

*TFCL was incorporated on March 27th, 2019 under the Companies Act 2017, as a Non-Banking Finance Company licensed by SECP. The principal activity of the Institution is to provide financing to low-income private Education Institutions and related entities in Pakistan.*

**Profile of Chairperson**

*Mr. Amjad Ali Arbab is a seasoned professional with 35+ years of experience in the banking sector. He has held the roles of Senior Advisor at CGAP/World Bank, Regional Director at Enclude, and CEO of the Microfinance Investment Support Facility for Afghanistan. He served as director on the board of Kashf Foundation and currently sits on the Boards of Mehnaz Fatima Foundation, Institute of Management Sciences, Rukhsana Mother and Childcare Trust Hospital. He holds a Masters in International Relations from The Johns Hopkins University /SAIS, Washington DC as well as a Masters in Political*

Taleem Finance Company Limited ('TFCL' or the 'NBFC') is a relatively new NBFC that commenced full-scale operations post-COVID. Despite its nascent stage, TFCL has demonstrated rapid growth in terms of branch network, loan officers, and active borrowers. TFCL benefits from a seasoned management team with extensive financial sector experience. The NBFC has established strong corporate governance structures, including board committees and management committees. Moreover, the development of the Taleem Connect App for offering the Taleem Express Sahulat (TES) digital loan product, positions TFCL for future growth in the digital lending space.

TFCL exhibited growth in its loan portfolio, supported by increasing disbursements and recoveries. While overall asset quality has been sustained, maintenance of asset quality will remain a challenge amidst portfolio expansion. TFCL continues to strengthen its mitigation strategies for these challenges. Ratings take comfort from NBFC's conservative provisioning policy demonstrating a cautious and proactive approach to managing credit risks. Albeit improvements in operational efficiency, it remains constrained, consequently impacting profitability. Management anticipates achieving profitability by CY25.

TFCL's liquidity and capitalization profile remains adequate, albeit showing a notable shift towards increased reliance on borrowings as the primary source of funding. Going forward, management plans to inject additional equity and /or convert loans to equity to strengthen the capital base. The successful execution of its growth strategy, including expansion of its branch network, enhancement of digital product offerings, maintenance of effective risk management as well as materialization of planned conversion of loan into preferences shares and equity injection will be important rating considerations.

**Company Profile:**

TFCL was incorporated under the Companies Act 2017 in Mar'19. TFCL is engaged in the provision of Investment Finance Services as a Non-Banking Finance Company (NBFC) under license from Securities and Exchange Commission of Pakistan (SECP) issued in Jun'19 and subsequently renewed in Sep'22. The principal line of business of the NBFC is lending money to low-income private Education Institutions in Pakistan. Additionally, TFCL offers financial support to other companies, firms, or individuals under terms and conditions deemed appropriate, with or without security, for provision of educational services and related technology to Education Institutions in Pakistan.

**Auditor's Opinion**

Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants has provided an unqualified and unmodified opinion, affirming that the NBFC's financial statements comply with accounting standards and accurately portray the NBFC's financial position as of Dec'23.

*Science from the University of Peshawar.*

**Profile of CEO**

*Mr. Kamran Azim is a Chartered Accountant with 25+ years of experience. His professional journey includes strategic leadership training from Harvard Business School, Wharton University, and Oxford University. He has been a keynote speaker at international events in the development sector in USA, UK, Zurich, Panama, Mauritius and Africa. He serves as a trainer in ICAP's Directors training programmes. He also represented Pakistani civil society in global forums, including initiatives with the World Bank/IMF and the partnership for change in Oslo, Norway. He held positions at KPMG Pakistan and Total Parco Pakistan and served as COO at Kashf Foundation.*

## Sponsors' Profiles:

### Gray Matters Capital:

Gray Matters Capital (GMC), founded in 2006 in Atlanta Georgia, USA transitioned from industrial real estate to microfinance to improve low-income families' lives. Starting from investments in India in 2007, GMC focused on affordable education, expanding to Pakistan and Nigeria. In 2013, GMC adopted a gender lens strategy, and in 2017 launched colabs and edLABS to fill the seed stage funding gap for business models serving women and innovative educational businesses. GMC invests across industries like mobile tech, healthcare, microfinance, energy, and education, balancing social impact with financial returns. They have also initiated ventures like Gray Ghost Ventures and the IDEX Fellowship. Currently GMC has a portfolio in Africa, India, Latin America, U.S.A, and Pakistan. GMC invested a total of USD 125+ mn in 78+ enterprises, impacting 38 mn low-resourced women and girls in the areas of learning, skilling, economic participation and well-being.

### Insitor Impact Asia Fund:

Insitor, founded in 2009, was the first Impact Fund Manager to set up operations in Cambodia. They focus in investing in startups, particularly those in the early stages of emerging industries. They launched the Insitor Seed Pilot with a USD 15 mn commitment and subsequently opened offices in India, Myanmar, Pakistan, and Singapore. In 2015, they launched the Insitor Impact Asia Fund (IIAF I) with USD 33 mn to invest in Cambodia, India, Myanmar, and Pakistan. Later, they also launched the Insitor Impact Asia Fund II (IIAF II) with USD 53 mn to invest in Cambodia, India, and Pakistan. Insitor currently manages 3 funds, invested in 31 companies with an AUM of $102 mn. Within Pakistan, Insitor has invested in Goldfin Limited Company, Trellis Housing Finance Limited, CreditPer and Ansaar Management Company (AMC).

### Mr. Kamran Azim:

Mr. Kamran Azim is a Chartered Accountant with over 25 years of experience, ranging from management consultancy and assurance practice in KPMG to managing the financial and corporate matters of Total Parco Pakistan and then heading the business of a leading microfinance institution, Kashf Foundation for over 14 years. In his previous role as the Chief Operating Officer (COO) at Kashf Foundation, he oversaw the country level business activities in a network of over 300 branches spread across Pakistan.

## Productivity and Branch Network

TFCL employs two types of Loan Officers (LOs): School Development Executives (SDEs) and Business Development Executives (BDEs). SDEs focus exclusively on Education Institution (EI) loans, handling large, secured loans. Each SDE can manage up to 150 clients or a portfolio of Rs. 70 mn. On the other hand, BDEs cater to Education Value Chain (EVC) loans, managing small, both secured and unsecured loans. Each BDE can handle up to 250 clients or a portfolio of Rs. 30 mn.

| Productivity (EI and SDE) | CY21 | CY22 | CY23 | 1HCY24 |
|---|---|---|---|---|
| No. of Branches | 2 | 2 | 3 | 4 |
| Total No. of SDEs | 4 | 7 | 14 | 16 |
| Active No. of EI Borrowers | 107 | 186 | 280 | 322 |
| SDE/Branch | 2 | 3 | 4 | 4 |
| EI Active Borrowers/SDE | 26 | 26 | 20 | 18 |
| EI Portfolio/SDE | 28,633,031 | 29,064,559 | 23,097,187 | 22,590,271 |
| EI Average Loan Size (Rs.) | 1,070,394 | 1,093,827 | 1,154,859 | 1,122,498 |
| Total Active Borrowers/Branch | 152 | 231 | 246 | 230 |

| Productivity (EVC and BDE) | CY21 | CY22 | CY23 | 1HCY24 |
|---|---|---|---|---|
| No. of Branches | 2 | 2 | 3 | 4 |
| Total No. of BDEs | 3 | 4 | 10 | 13 |
| Active No. of EVC Borrowers | 198 | 276 | 459 | 632 |
| BDE/Branch | 1 | 2 | 3 | 3 |
| EVC Active Borrowers/BDE | 66 | 69 | 45 | 49 |
| EVC Portfolio/BDE | 16,331,556 | 16,979,514 | 10,738,074 | 11,934,630 |
| EVC Average Loan Size (Rs.) | 247,448 | 246,080 | 233,945 | 245,491 |
| Total Active Borrowers/Branch | 152 | 231 | 246 | 230 |

TFCL became fully operational post COVID and since then increased operations overtime. As of Jun'24, TFCL operated with 4 branches with 29 LOs. By end Jun'24, TFCL was able to increase total number of active borrowers to 954, out of which 322 were EI borrowers while 632 were EVC borrowers. Average loan size for EI loans remains above Rs 1 mn, while average EVC loan stands at Rs. 245,000. However, in terms of overall productivity metrics, TFCL remains on the lower side with number of active borrowers relative to the branches and LOs remains low, falling short of both its own benchmarks and peer comparisons. TFCL has room for improvement in terms of increasing the number of active borrowers per LO and growing the portfolio size. This gap highlights the potential for enhancing operational efficiency as the NBFC scales.

In terms of reach, all branches are located in Punjab, however the management has plans to expand to other provinces, with next branch being set up in Khyber Pakhtunkhwa (KPK). The distribution model is based on starting with a service center, which operate on a low-cost model and as business grows, staff levels are increased accordingly. Once a service center achieves a certain revenue threshold, it is converted into a full branch. By Dec'25, management aims to establish 5 branches and 5 service centers, supported by 29 SDEs and 27 BDEs and targeting 3800 plus clients.

In addition, the NBFC has launched the Taleem Connect App in Aug'24 post SECP approval, which is a customer-facing application developed for the management and access of financial services, serving as a foundation for Digital Financial Services. This app will be a valuable tool for individuals and small businesses in need of financing, offering a convenient and streamlined way for underserved communities or businesses within the education ecosystem to apply for and manage loans. Parents with children in education may require financing to ensure uninterrupted payment of fees. The Taleem Connect App features the Taleem Express Sahulat (TES) digital loan financing application, which offers digital microloans. This functionality aims to provide quick and accessible financial support to families, ensuring that educational expenses do not hinder their children's learning journey. Initially Digital Loans are available for existing clients, which are manually approved by the relevant Branch Managers after a thorough review of the customer's profile. The app exclusively features the TES product and includes a comprehensive ledger where customers can review their payments, receipts, and outstanding balances. The app is distributed digitally and is available for download on mobile phone application stores.

**Management and Governance structure**

TFCL's senior management and Board of Directors (BoDs) have considerable experience in the field of microfinance and financial services. The Board currently comprises six members, including the chairperson, Mr. Amjad Ali Arbab with 35+ years of experience in the banking sector. He has held the roles of Senior Advisor at CGAP/World Bank, Regional Director at Enclude, and CEO of the Microfinance Investment Support Facility for Afghanistan. Mr. Arbab served as director on the BoD of Kashf Foundation and currently sits on the Boards of Mehnaz Fatima Foundation, Institute of Management Sciences, Rukhsana Mother and Childcare Trust Hospital. He holds a Masters in International Relations from The Johns Hopkins University/SAIS, Washington DC as well as a Masters in Political Science from the University of Peshawar.

Mr. Amjad Pervez has over 37 years of extensive experience in treasury management, banking, accounting, and investments. His career began in 1981 and later became GM and team leader at the Industrial Development Bank of Pakistan. He has served on various boards, including the Bank of Khyber. He also held leadership roles as COO and CEO at First National Equities Ltd and provided financial advisory services to the Government of KPK. He was also engaged by Shore Bank International Limited as a consultant to set up the Treasury Department of Kashf Microfinance Bank. He has been an independent Director of the Pakistan Stock Exchange since 2018.

Mr. Ali Abbas Sikander is a certified Independent Director from ICAP and an expert in microfinance, digital financial services, and digital payments. He has advised prominent organizations like MMU, GSMA, CGAP/World Bank, and the Bill & Melinda Gates Foundation. Mr. Abbas co-founded Tameer Microfinance Bank in 2005, playing a crucial role in its establishment and the launch of 'easypaisa,' a mobile money product. Currently, he mentors and invests in a Fintech company focused on DFS infrastructure in Pakistan & beyond. Prior to his Microfinance and DFS experience, he spent 11 years with Citibank in various geographies covering corporate clients for transactional banking.
Mr. Hammad Umer is an Investment Manager with extensive experience in venture capital and private equity. He excels in management, financial analysis, finance, social impact, and private equity. Currently, he serves as the Head of Country for Insitor in Pakistan, where he leads an impact investment fund dedicated to supporting entrepreneurs who create transformative solutions for low-income consumers.

Ms. Mehvish Arifeen is a venture operator with over a decade of experience in strategy, people operations, and product development. With a background in microfinance, she earned degrees from

UCLA and The Fletcher School. As CEO of invest2innovate, she tripled revenue and expanded networks in Pakistan and the MENA region. She also co-founded GharPar and now advises startups on capital raise readiness for the World Bank Group. She has resigned as director in TFCL and is currently serving her notice period; she will soon be replaced by another Independent Director.

Mr. Raunak Singhvi serves as an Advisor to the Board at TFCL. He is the Chief Financial Officer (CFO) at Gray Matters Capital, bringing over 20 years of finance experience across sectors such as impact investment, insurance, and IT services. He has expertise in due diligence, investments, and risk assurance, and is a qualified Insolvency Resolution Professional from IBBI. Raunak has worked in over 20 countries and has led an Early-Stage VC-funded payments company. At Gray Matters Capital, he joined in 2018, expanded education finance into Asia and Africa, and served as Interim-CEO of Indian School Finance Company during Covid. He co-founded EdPrime in 2020, later rejoining GMC full-time in 2021.

Composition of the BoD is tabulated below:

| Name | Position | Experience |
|---|---|---|
| **Mr. Amjad Ali Arbab** | Chairperson | 35 years |
| **Mr. Amjad Pervez** | Director | 37 years |
| **Mr. Ali Abbas Sikander** | Independent Director | 20 years |
| **Mr. Hammad Umer** | Director | 17 years |
| **Ms. Mehvish Arifeen** | Independent Director | 15 years |
| **Mr. Kamran Azim** | CEO | 25 years |

During CY23, 4 BoD meetings took place with satisfactory attendance of BoD members. Three BoD committees are operating to maintain effective oversight - namely Board Finance and Audit Committee (BFAC), Board Risk Management Committee (BRMC), and Board Operations, IT and HR (BOTHC). BFAC and BOTHC are chaired by an independent director.

In order to ensure smooth operations, there are 10 management committees in place namely Management Committee (MC), Disciplinary Committee (DC), Grievance Management Committee (GMC), Customer Complaint Management Committee (CCMC), Whistleblowing Committee (WC), Inquiry Committee (IC), Purchase Committee (PC), PAR Management Committee (PMC), Policy / Project Advisory Body (PAB) and Targets Planning & Advisory Committee (TPAC) with clearly defined Terms of reference (TORs).

**Loan Approval Process**

The loan process begins with either a walk-in or mobilized customer. Coordination and a preliminary interview are conducted to assess the client's needs. Customers are then informed about the suitable product details available. A loan proposal file is initiated, during which the customer's credit profile is verified through DataCheck, Tasdeeq, and NADRA. The loan proposal process involves a thorough assessment, which includes verifying the customer's eligibility, evaluating their capacity and willingness to pay, assessing guarantors, and conducting collateral evaluations when necessary. Credit approvals exceeding Rs. 5 mn are reviewed and decided by the management risk committee. For credit decisions below Rs. 5 mn, the CEO has full authority and is actively involved in credit evaluations. However, any product structuring must receive approval at the Board level.

**Loan Portfolio**

| (Rs. '000) | Dec'21 | Dec'22 | Dec'23 | Jun'24 |
|---|---|---|---|---|
| **Gross Loan Portfolio** | **163,491** | **271,370** | **430,741** | **511,470** |

The Gross Loan Portfolio (GLP) showed growth over the timeline, reaching Rs. 511.5 mn by the end of Jun'24, up from Rs. 430.7 mn in Dec'23. Loan disbursements rose to Rs. 722.5 mn (CY23: Rs. 325.5 mn; CY22: Rs. 223.1 mn) in 1HCY24 while total recoveries reached Rs. 211.0mn (CY23: Rs. 166.1 mn; CY22: Rs. 114.9 mn). Management projects increasing its GLP to Rs. 1.2 bn by Dec'25 after securing external funding along with equity injection.

| Product-wise Portfolio (Rs. '000) | Dec'21 | % | Dec'22 | % | Dec'23 | % | Jun'24 | % |
|---|---|---|---|---|---|---|---|---|
| **Taleem School Asasah (TSA)** | 83,983 | 51% | 152,227 | 56% | 228,591 | 53% | 208,907 | 41% |
| **Taleem School Sarmaya (TSS)** | 30,513 | 19% | 51,225 | 19% | 94,770 | 22% | 152,975 | 30% |
| **Taleem Jari Sahulat (TJS)** | 45,215 | 28% | 64,638 | 24% | 103,573 | 24% | 144,068 | 28% |
| **Taleem Jari Sahulat - Gold (TJS-G)** | - | 0% | - | 0% | - | 0% | 960 | 0% |
| **Taleem Teacher Sahulat (TTS)** | - | 0% | - | 0% | - | 0% | - | 0% |
| **Taleem Dost Sahulat (TDS)** | 3,780 | 2% | 3,280 | 1% | 3,547 | 1% | 3,861 | 1% |
| **Taleem Fee Sahulat (TFS)** | - | 0% | - | 0% | 261 | 0% | 699 | 0% |
| **Gross Loan Portfolio** | **163,491** | **100%** | **271,370** | **100%** | **430,741** | **100%** | **511,470** | **100%** |

TFCL categorizes its loan portfolio into two main segments: EI and the EVC. EI loans are provided directly to educational institutions, with products such as TSA and TSS initially falling under this category. TSA was originally designed for capital expenditure requirements of EIs, while TSS was intended for working capital. However, from 2024 onwards, TSA has been discontinued, with TSS now covering both working capital and capital expenditure needs. The EVC segment caters to entities and individuals associated with educational institutions, including vendors, parents, students, and teachers. This segmentation enables TFCL to address the unique financial needs of both educational institutions and their broader ecosystem. Under EVCs, TJS dominates the entire portfolio. TJS is for parents to manage Education Institutions' fees and learning aids through fee payment loans for small tenures, working capital loans for their home needs, and Business loans to support their businesses and enable them to generate sufficient revenue to keep paying Education Institutions' fee. Currently 71% of the entire portfolio relates to EIs, while remainder relates to EVCs. Management projects that approximately 70% of the portfolio will consist of EI loans, with the remaining portion comprising EVC loans.

TFCL is working on product development to cater to needs of different market segments. To further enhance risk management and drive portfolio growth, TFCL has introduced a gold-backed variant of TJS. This product not only mitigates credit risk by leveraging the intrinsic value of gold but also attracts a broader customer base seeking secure and reliable financial solutions. Shariah-compliant products are being launched this quarter, including the Shariah Compliant variant of TSS product.

The Shariah advisor for this initiative is Alhamd Shariah Advisory Services (Pvt) Limited, and the necessary approval has been obtained on the Islamic Products being offered. By the end of CY25, Shariah compliance will be incorporated into all products, enhancing customer outreach to include those who require Shariah-compliant financial solutions.

The client distribution across loan sizes shows a consistent demand for mid-range loans (Rs. 100,001 to Rs. 500,000), which account for nearly 55% of total clients in both Dec'23 and Jun'24. While the overall number of clients increased across all categories, the "Rs. 50,001 - Rs. 100,000" category saw a slight rise in proportion, indicating a growing interest in smaller loans. Meanwhile, the proportion of clients in the highest loan category (Rs. 1,000,001 and above) decreased marginally, suggesting a slower growth rate in high-value loans. These trends highlight the need to focus on mid-range loan offerings while also exploring opportunities in the smaller loan segment. The top 25 clients represent approximately 30% of the total portfolio, indicating that the portfolio is relatively well-diversified.

| Break-up of Loans by Size (Rs. '000) | Dec'23 | No. of Client | % of Clients | Jun'24 | No. of Clients | % of Clients |
|---|---|---|---|---|---|---|
| **Upto Rs. 50,000** | - | - | - | - | - | - |
| **Rs. 50,001 - Rs. 100,000** | 1,774.0 | 39 | 5.3% | 2,113.1 | 55 | 5.8% |
| **Rs. 100,001 - Rs. 250,000** | 23,183.0 | 215 | 29.1% | 30,031.4 | 275 | 28.8% |
| **Rs. 250,001 - Rs. 500,000** | 42,653.6 | 202 | 27.3% | 55,693.3 | 255 | 26.7% |
| **Rs. 500,001 - Rs. 1,000,000** | 48,898.0 | 128 | 17.3% | 70,664.3 | 180 | 18.9% |
| **Rs. 1,000,001 and Above** | 314,232.8 | 155 | 21.0% | 352,968.4 | 189 | 19.8% |
| **Total** | **430,741.4** | **739** | **100.0%** | **511,470.4** | **954** | **100.0%** |

Approximately 72% of TFCL's portfolio comprises secured lending, offering a significant buffer against potential defaults. However, moving forward, TFCL anticipates that secured loans will constitute 70% of the total portfolio, with the remaining portion allocated to unsecured loans

| Secured vs Unsecured (Rs. '000) | Dec'21 | % | Dec'22 | % | Dec'23 | % | Jun'24 | % |
|---|---|---|---|---|---|---|---|---|
| **Secured Loans** | 111,174 | 68% | 203,527 | 75% | 323,056 | 75% | 366,351 | 72% |
| **Unsecured Loans** | 52,317 | 32% | 67,842 | 25% | 107,685 | 25% | 145,119 | 28% |
| **Total** | **163,491** | **100%** | **271,370** | **100%** | **430,741** | **100%** | **511,470** | **100%** |

Comfort is derived from the fact that the entire portfolio operates under EMI payments, ensuring consistent and predictable cash flow. However, going forward, management projects a slight increase in bullet payments with the introduction of Digital and Gold Loans, as these products will offer the option of bullet payments as well.

| EMI vs Bullet (Rs. '000) | Dec'21 | % | Dec'22 | % | Dec'23 | % | Jun'24 | % |
|---|---|---|---|---|---|---|---|---|
| **EMI** | 163,491 | 100% | 271,370 | 100% | 430,741 | 100% | 511,470 | 100% |
| **Bullet** | - | 0% | - | 0% | - | 0% | - | 0% |
| **Total** | **163,491** | **100%** | **271,370** | **100%** | **430,741** | **100%** | **511,470** | **100%** |

### Asset Quality

| Asset Quality Indicators (Rs. '000) | CY21 | CY22 | CY23 | 1HCY24 |
|---|---|---|---|---|
| **NPLs** | - | 9,825.6 | 11,873.9 | 5,027.6 |
| **NPLs written off** | - | 407.4 | 99.1 | 10,035.0 |
| **Total Provisioning** | 2,453.0 | 6,004.6 | 18,766.0 | 12,964.4 |
| **Gross Infection** | 0.0% | 3.6% | 2.8% | 1.0% |
| **Net Infection** | 0.0% | 3.5% | 0.3% | 0.6% |
| **Incremental Infection** | 0.0% | 4.8% | 0.6% | 0.7% |
| **Specific Provisioning Coverage** | NA | 4.7% | 88.3% | 41.1% |
| **Total Provisioning Coverage** | NA | 61.1% | 158.0% | 257.9% |
| **Net NPLs/Tier-1 Equity** | 0.0% | 4.1% | 0.7% | 1.9% |

The asset quality of TFCL is critical from ratings perspective. Non-Performing Loans (NPLs) stood at Rs. 5.0 mn, as a result of adjustment of write-off booked in the 1HCY24. Infection ratios – gross infection ratio at 1.0% and net infection ratio at 0.6% – improved, indicating maintained credit quality, amidst growing portfolio. However, the NBFC is in the initial growth phase, and over time an expanding GLP could typically pressure asset quality.

TFCL's adherence to more conservative provisioning standards—maintaining 5% for unsecured loans and 1% for secured loans—also underscores a prudent risk management strategy, even though these rates exceed the minimum requirements set by NBFC regulations. Consequently, total provisioning coverage of 257.9% as of 1HCY24 reflects a proactive approach to managing potential credit risks. It may be noted that the SECP has extended the implementation of IFRS 9 until De'24 and therefore no impact of IFRS 9 on provisioning has been accounted for.

### Liquidity

| Liquidity (Rs. '000) | Dec'21 | Dec'22 | Dec'23 | Jun'24 |
|---|---|---|---|---|
| **Short-term Investments** | 52,403.4 | - | - | - |
| **Cash and Bank Balances** | 37,069.2 | 147,988.0 | 215,867.9 | 317,769.1 |
| **Liquid Assets** | **89,472.7** | **147,988.0** | **215,867.9** | **317,769.1** |
| **Borrowings** | **25,000.0** | **73,500.0** | **306,378.9** | **516,733.9** |
| **Liquid Assets to Borrowings** | 357.9% | 201.3% | 70.5% | 61.5% |
| **Advances to Borrowings Ratio** | 654.0% | 369.2% | 140.6% | 99.0% |

TFCL's liquidity profile shows a notable shift towards increased reliance on borrowings as the primary source of funding, beginning in CY23. Total borrowings have reached a record high of Rs. 516.7 mn by Jun'24, a significant rise from Rs. 306.4 mn in Dec'23 and Rs. 73.5 mn in Dec'22. The increase in borrowings is attributed to the receipt of the final tranche of USD 1.6 mn deal with Insitor in CY23, which aligns with the NBFC's growth in its loan portfolio.

However, this growing dependence on debt has led to a decline in the Advances to Borrowings Ratio (ABR), which has decreased to 99.0% in 1HCY24, down from 369.2% in CY22. In terms of liquidity, TFCL's liquid assets stood at Rs. 317.8 mn as of Jun'24, up from Rs. 148.0 mn in Dece'22. Despite this, the Liquid Assets to Borrowing ratio has decreased to 61.5% in 1HCY24, compared to 201.3% in CY22.

The largest portion of borrowings comes from a foreign convertible loan facility from Insitor Impact Asia Fund II Pte Limited, which carries a 7% annual interest rate, payable at maturity in Jul'25. Management anticipates this loan will be converted into preference shares, and thus no hedging contracts have been established for repayment. The other significant source of borrowing is a term finance facility from the Pakistan Microfinance Investment Company (PMIC), with an interest rate of KIBOR plus 5%. Looking ahead, management projections suggest that TFCL's ABR will rise to 178.4%, and the Liquid Assets to Borrowing ratio will slightly improve to 82% by Dec'25.

| Borrowings (Rs. '000) | Dec'21 | Dec'22 | Dec'23 | Jun'24 |
|---|---|---|---|---|
| **Pakistan Microfinance Investment Company – Term Finance** | 25,000 | 73,500 | 84,000 | 100,000 |
| **Insitor Impact Asia Fund II Pte Limited – Convertible Loan Facility** | - | - | 222,379 | 416,734 |
| **Total Borrowings** | **25,000** | **73,500** | **306,379** | **516,734** |

Overall, while TFCL is actively expanding its funding sources to support growth, the increasing reliance on borrowings and the declining liquidity ratios indicate potential challenges in maintaining a robust liquidity profile, particularly if the anticipated foreign loan and conversion into preference shares do not materialize as planned.

**Profitability**

| Income Statement Extract (Rs. '000) | CY21 | CY22 | CY23 | 1HCY24 |
|---|---|---|---|---|
| **Return on Markup Bearing Assets** | 16.0% | 22.1% | 24.6% | 24.6%* |
| **Cost of Funds** | 5.4% | 27.0% | 13.5% | 8.4%* |
| **Spreads** | 10.6% | -4.8% | 11.1% | 16.1%* |
| **Operating Self Sufficiency (OSS)** | 53.9% | 57.5% | 70.7% | 82.2% |
| **Profit/(Loss) after taxation** | (38,991.3) | (52,132.4) | (48,359.8) | (30,010.1) |

*Annualized

The profitability profile shows some positive developments with the markup on earning assets increasing to 24.6% in CY23, up from 22.1% in CY22, reflecting improved income generation from loans. This growth in income was further bolstered by a significant 71.9% year-over-year increase in income from long-term loans, driven by the expansion of the GLP and elevated benchmark rates during CY23. Additionally, TFCL benefited from a reduced cost of funds, which fell to 13.5% in CY23, largely due to a favorable long-term loan secured from Insitor at a lower interest rate of 7%. As a result, the NBFC's spread improved to 11.1%.

However, despite these improvements, the NBFC continues to face profitability challenges. The NBFC continued to report a negative bottom line in CY23, with a loss of Rs. 48.3 mn, only slightly improved from the Rs. 52.1 mn losses in CY22. The loss is primarily due to relatively higher operating expenditures which rose sharply, with a 75.3% increase driven by higher costs in credit life insurance and a rise in impairment allowance on long-term loans. Administrative expenses also grew by 40.2%, with salaries and benefits making up a significant portion (74%) of these costs, driven by inflation and the expansion of operations. Consequently, Operating Self Sufficiency (OSS) remains low at 70.7%, though it did improve from 57.5% in the previous year, indicating that TFCL still has to cover more ground for covering its costs through operational revenue alone.

Looking ahead to 1HCY24 and beyond, management projects that by the end of CY24, income from long-term loans will further increase while OSS anticipated to improve to 85%, indicating progress towards financial sustainability. However, TFCL is currently struggling with profitability with a negative bottom line of Rs. 30.0 mn and OSS of 82.2% during 1HCY24. The NBFC is on a path towards improved financial performance, though challenges remain in achieving and sustaining profitability with first positive line profitability expected in CY25.

### Capitalization

| Capitalization (Rs. ,000) | Dec'21 | Dec'22 | Dec'23 | Jun'24 |
|---|---|---|---|---|
| **Issued ordinary share capital** | 337,956.0 | 337,956.0 | 337,956.0 | 337,956.0 |
| **Share premium** | - | 29,671.1 | 29,671.1 | 29,671.1 |
| **Accumulated profit/(losses)** | (95,302.7) | (147,435.1) | (195,794.9) | (225,804.9) |
| **Equity** | **242,653** | **220,192** | **171,832** | **141,822.2** |
| **Issued preference share capital** | - | 146,328.9 | 146,328.9 | 146,328.9 |
| **Equity component of convertible loan** | - | - | 32,944.8 | 32,944.8 |
| **Total Equity** | **242,653.3** | **366,520.9** | **351,105.9** | **321,095.9** |
| **Leverage Ratio** | 0.1 | 0.5 | 2.0 | 4.0 |

Initially, TFCL received seed capital from Gray Ghost Ventures Education Holdings (GGVEH) in CY19 and later secured Series A funding from Insitor Impact Asia Fund II in CY22. These investments have established their ownership base, with GMC and Insitor holding 63.8% and 30.2% of the ordinary share capital, respectively, amounting to Rs. 338.0 mn. The issuance of preference shares in CY22, which raised Rs. 176.0 mn, including share premium, further strengthened the NBFC's capital base. Additionally, in CY23, Rs. 32.9 mn was recognized as an equity component of a convertible loan facility from Insitor under IFRS, adding to the NBFC's equity.

However, TFCL's financial health has been under pressure due to consistent losses, which have eroded retained earnings and reduced total equity. By Jun'24, total equity had declined to Rs. 321.1 mn, down from Rs. 351.1 mn in Dec'23 and Rs. 366.5 mn in Dec'22. This decline reflects the ongoing strain on the NBFC's capital due to its inability to achieve profitability.

The leverage ratio has increased significantly, rising to 4.0x by Jun'24, compared to 2.0x in CY23 and just 0.5x in CY22. This sharp rise indicates that TFCL is increasingly relying on debt to fund its operations, which could heighten financial risk if not managed carefully.

Looking forward, management is expecting an equity injection of over USD 1.0 mn, from Insitor and other sources being accessed, and the conversion of convertible loans into preference shares, which would boost the NBFC's equity base. By Dec'25, management projects total equity to increase to Rs. 1.1 bn, although leverage is expected to exceed 2x. This indicates a potential for improved

| | |
|---|---|
| | capitalization, but also highlights the NBFC's continued reliance on debt and external funding to support its growth and operational needs. Amidst the same, managing financial risk will be crucial as the NBFC moves forward. |

## Taleem Finance Company Limited — Appendix I

| FINANCIAL SUMMARY | | | | (Amounts in PKR '000) |
|---|---|---|---|---|
| **BALANCE SHEET** | **31-Dec-21** | **31-Dec-22** | **31-Dec-23** | **31-Jun-24** |
| Net Advances | 161,038.0 | 265,365.3 | 411,975.4 | 498,506.0 |
| Short term investments | 52,403.4 | - | - | - |
| Operating assets | 15,521.7 | 38,965.2 | 36,163.1 | 34,461.4 |
| Cash and bank balances | 37,069.2 | 147,988.0 | 215,867.9 | 317,769.1 |
| Total Assets | 278,215.7 | 472,054.6 | 701,269.5 | 884,427.2 |
| Long term borrowings | 25,000.0 | 73,500.0 | 306,378.9 | 516,733.9 |
| Total Liabilities | 35,562.3 | 105,533.7 | 350,163.6 | 563,331.3 |
| Ordinary Share Capital | 337,956.0 | 337,956.0 | 337,956.0 | 337,956.0 |
| Preference Share Capital | - | 146,328.9 | 146,328.9 | 146,328.9 |
| Equity (excl. pref. shares) | 242,653.3 | 220,192.0 | 204,777.0 | 141,822.2 |
| Total Equity | 242,653.3 | 366,520.9 | 351,105.9 | 321,095.9 |
| | | | | |
| **INCOME STATEMENT** | **CY21** | **CY22** | **CY23** | **1HCY24** |
| Income from long term loans | 31,966.5 | 60,775.4 | 104,480.9 | 68,097.2 |
| Operational expenditure | (3,663.0) | (6,698.3) | (17,661.0) | (6,614.6) |
| Administrative expenses | (71,603.1) | (103,646.1) | (145,356.1) | (95,736.2) |
| Other income | 9,212.7 | 12,550.5 | 30,408.3 | 30,824.1 |
| Finance cost | (1,110.7) | (16,509.7) | (27,858.6) | (17,967.3) |
| Profit/(Loss) before taxation | (35,197.5) | (54,099.9) | (55,986.5) | (21,396.8) |
| Profit/(Loss) after taxation | (38,991.3) | (52,132.4) | (48,359.8) | (30,010.1) |
| | | | | |
| **RATIO ANALYSIS** | **CY21** | **CY22** | **CY23** | **1HCY24** |
| Gross Infection (%) | 0.0% | 3.6% | 2.8% | 1.0% |
| Incremental Infection (%) | 0.0% | 4.8% | 0.6% | 0.7% |
| Provisioning Coverage - Total (%) | NA | 61.1% | 158.0% | 257.9% |
| Provisioning Coverage - Specific (%) | NA | 4.7% | 88.3% | 41.1% |
| Net Infection (%) | 0.0% | 3.5% | 0.3% | 0.6% |
| Net NPLs to Tier-1 Capital (%) | 0.0% | 4.1% | 0.7% | 1.9% |
| Markup on earning assets (%) | 16.0% | 22.1% | 24.6% | 24.6*% |
| Cost of Funds (%) | 5.4% | 27.0% | 13.5% | 8.4*% |
| Markup Spreads (%) | 10.6% | -4.8% | 11.1% | 16.1*% |
| OSS (%) | 53.9% | 57.5% | 70.7% | 82.2% |
| ROAA (%) | -13.6% | -13.9% | -8.2% | -7.6*% |
| ROAE (%) | -14.9% | -22.5% | -22.8% | -19.1*% |
| Advances to Borrowings Ratio | 654.0% | 369.2% | 140.6% | 99.0% |
| Liquid Assets to borrowings | 357.9% | 201.3% | 70.5% | 61.5% |

*Annualized

| REGULATORY DISCLOSURES | Appendix II |
|---|---|
| **Name of Rated Entity** | Taleem Finance Company Limited |
| **Sector** | Non-Banking Finance Company |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Rating |
| **Instrument Structure** | N/A |
| **Statement by the Rating Team** | VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. |
| **Probability of Default** | VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. |
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**Rating History**

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: Entity** | | | | |
| **11-Sep-24** | BBB | A-2 | Stable | Initial |

**Due Diligence Meetings Conducted**

| Name | Designation | Date |
|---|---|---|
| Mr. Muhammad Asif Shamsi | Head of Operations | 19th July 2024 |
| Mr. Hassan Adeel Zafar | Head Of Finance & Accounts | |
| Muhammad Hammad | Manager Compliance & Risk | |