# Kashf Foundation

*Chairman: Dr. Ishrat Hussain; Founder & Director: Ms. Roshaneh Zafar*

*November 25, 2009*

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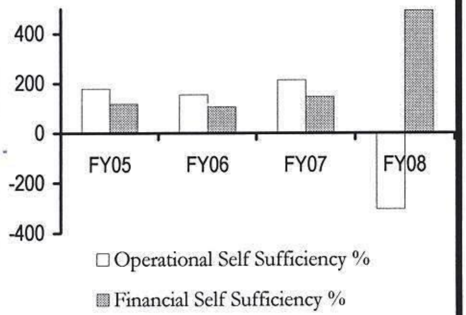
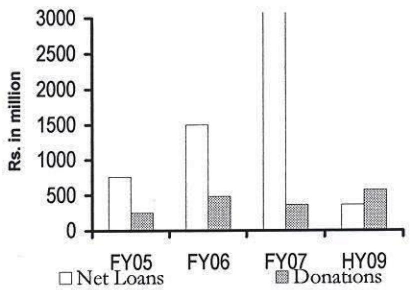
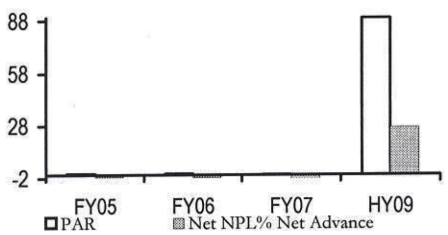
| Category | Latest | Previous |
|---|---|---|
| Entity | BBB/A-3 | BBB+/A-3 |
| | *Oct 28, '09* | *Apr 3, '08* |
| TFC-1 | A- | A |
| *Rs. 720m* | *Oct 28, '09* | *Apr 3, '08* |
| *Outlook* | *Negative* *Oct 28, '08* | *Negative* *Apr 3, '08* |

## Key Financial Trends




## Rating Rationale

The year 2008 witnessed unprecedented difficulties in the microfinance sector, particularly with regards to recoveries. While the economic turmoil has undermined the repayment capacity of borrowers in general, KF suffered further challenges due to a combination of endogenous and exogenous factors. Consequently, there was a serious impact on the asset quality of the organization and KF restricted its lending activities in 2009 with total gross outstanding portfolio decreasing to Rs. 2.96b (FY08: Rs. 3.52b, FY07: Rs. 3.19b). As FY08 accounts were finalized in May 2009, the management set aside Rs. 1.27b (FY07: Rs. 97.8m) as provisioning and additional provisioning of Rs. 1.29b was made during HY09.

In spite of further borrowings, most notably, a new credit line from Pakistan Poverty Alleviation Fund, (PPAF), which amounted to Rs. 1.5b, the asset base decreased to Rs. 3.85b (FY07: Rs. 4.06b) in lieu of provisioning during HY09. Total borrowings stood at Rs. 4b (FY07: Rs. 2.42b), resulting in the accumulation of significant cash reserves that can be utilized to service credit obligations maturing up to June'10. Around Rs. 2b (50% of total borrowings) are due for repayment by June'10, while cash equivalents amounted to Rs. 2.61b, indicating adequate debt servicing capability over the short-term. However, this has been achieved at the cost of rescheduling the PPAF line. Subsequently, a grant of Rs. 450m to be obtained in 2009 has also been approved by DFID, out of which around Rs. 200m have been received till June'09. Nevertheless, unless meaningful recoveries are made from the company's micro-credit portfolio, a significant cash crunch will be inevitable in FY10.

KF had also issued a privately placed TFC. In addition to it being secured against the foundation's assets, it is covered by a USD 3m guarantee from the Grameen foundation USA (GFUSA). While KF is in breach of the covenants set by GFUSA in the service agreement, the management has obtained a waiver in this regard. Moreover, after taking the impact of rupee depreciation, a guarantee of USD 3m from GFUSA now covers around 33% of the outstanding principal amount of the TFC. The foundation is in process of obtaining waiver from the trustee as covenants in the trust deed also stand breached.

On account of significant provisioning requirement, profitability suffered a serious setback with KF reporting a net loss of Rs. 1.42b during HY09. Subsequently, net worth has reduced to negative Rs. 263m (FY07: Rs. 1.46b) by Jun09-end.

In addition to the cash conservation stance adopted by the management, Kashf has also revised its lending strategy, which includes reducing group size and decreasing individual loan officer loads, to enable more effective monitoring. Projected recoveries by the year end 2009 are estimated to be around Rs. 1.68b. Moreover, the management is making efforts to rejuvenate the portfolio by rescheduling problematic loan accounts. KF's portfolio is largely concentrated in and around Lahore; geographical diversification is needed and may have minimized the impact of recent developments.

Rapid changes in the top management were witnessed in the outgoing year. Stability in management is important for consistency in performance and effective management of the organization.

## Overview of the Institution

Kashf Foundation was set up in 1996 as a micro-finance organization. In 2007, the organization has changed its legal status to a non profit limited guarantee limited company. Associated concerns include a non profit organization – Kashf Holdings and a microfinance bank – Kashf Microfinance Bank. The foundation operates with a network of 154 (FY07: 154) branches as of December 31st, 2008. It primarily caters to women, offering group loan products JCR-VIS