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Kashf Foundation

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

July 12, 2011

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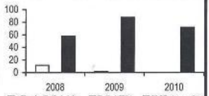
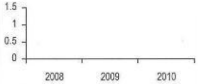
Category	Latest	Previous
Entity	BBB/A-3	BBB/A-3
	Jul 12, '11	*Sept 6, '10*
Outlook*	N/A	N/A

* Under Rating Watch–Developing Status since Sept 6, 2010

Key Financial Trends



** Based on recurring profit before provision and taxation*



	2010	2009	2008
Net Financings (Rs. in b)	1.25	0.38	2.96
Deposits(Rs.in b)	-	-	-
Market Share %	-	-	-
Deposit Cost (%)	-	-	-
Profit / (Loss) (Rs.in m)	106.1	(2059.1)	221.6
Equity (Rs. in b)	(0.19)	(0.29)	1.59
CAR (%)	-	-	-
Liquid Assets % Deposits & Borrowings	27.2	65.8	65.3
Net Infection (%)	-	-	-

Rating Rationale

The ongoing economic crunch amid inflationary pressure continues to constraint the disposable income of low income groups; thereby requiring microfinance institutions to adopt a more prudent approach towards lending. Moreover, the recent floods in the country affected the microfinance sector. However, the intensity was more profound for players having exposure in rural segments while institutions operating in urban/semi-urban areas were largely able to avert direct crisis.

Kashf Foundation (KF) had no major flood related problems and the institution continued to recover from indigenous crisis that had occurred during 2008. Subsequent to 2008, KF virtually halted all its lending activities and the focus was limited to the existing portfolio. During 1H09, the foundation resumed disbursements but to the extent of existing clients only. In FY10, KF disbursed Rs. 2.03b (FY09: Rs. 3.98b) and active loans increased to 392,294 (FY09: 372,992). The recovery ratio also improved substantially to 99% during 2H10 as compared to 24% in 1Q10 and 46% in 2Q10.

The gross advances portfolio stood at Rs. 3.15b (FY09: Rs. 2.96b) with growth largely manifested in Kashf Aitbar Karza (KAK), a product for those non-performing clients willing to rebuild their relations with KF. Loan disbursed includes a component as settlement of default principal payment while the remaining proportion is considered as fresh funding. Given the difficult recovery prospects of the old portfolio, KF has written-off over dues to the tune of Rs. 611.1m against provisions in FY10 while further write offs are anticipated, going forward. Consequently, gross NPLs decreased to 59.3% (FY09: 90.9%) with full provisioning of the infected portfolio.

Total borrowings decreased to Rs. 3.22b (FY09: Rs. 4b) on account of maturity payments. The funding mix largely comprises revolving facility from Pakistan Poverty Alleviation Fund (PPAF) while other major lenders include Standard Chartered PRISM, Citibank N.A. – Opic loan. KF utilized its cash reserves to carryout lending activities, thereby depicting a decline in liquid assets as a proportion of total borrowings to 27.2% (FY09: 65.8%). Consequently, the foundations' capacity to service principal payments from liquid assets deteriorated to 0.32x (FY09: 1.23x).

KF posted net profit of Rs. 106.1m in FY10 against a loss of Rs. 2.06b in the preceding year. However, profitability was largely supported by grant income with operational self sufficiency, though improving, of 80.2% (FY09: 29.8%). In HY11, there is a loss of Rs. 14.6m with no grant recognized during the period. Given its size, the foundation would have to build a sizable performing portfolio to sustain its operational cost. Total core equity stood at negative Rs. 186.2m (FY09: negative Rs. 290.5m). The foundation took the impact of revaluation surplus on fixed asset to the tune of Rs. 89.9m in FY10. A grant of Rs. 680m has been approved which is to be received in equal half yearly payments over a period of five years while its first tranche for two quarters has been received. KF has sought approval of another operational grant amounting to Rs. 350m from an international funding agency. While this grant has been approved at Pakistan level, release of funds is subject to final approval at the BoD meeting. Going forward, fund mobilization will remain critical for growth.

Overview of the Institution

Kashf Foundation was set up in 1996 as a micro-finance organization. In 2007, the organization changed its legal status to a non profit limited guarantee company. Associated concerns include a non profit organization – Kashf Holdings and a micro-finance bank – Kashf Microfinance Bank Limited. The foundation currently operates with a network of 147 (FY09: 153) branches. It primarily caters to women, offering group loan products

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