

# Kashf Foundation

Chairman: Mr. Moeen Afzal; Founder & Managing Director: Ms. Roshaneh Zafar

March 06, 2013

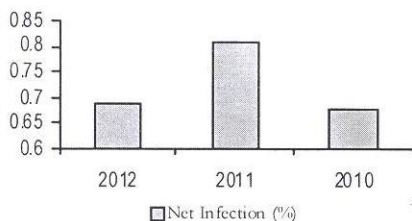
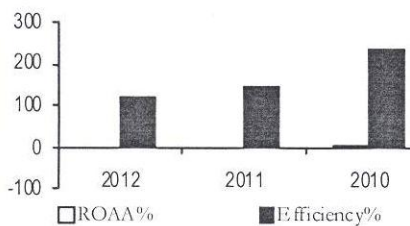
**Analysts:** Maimoon Rasheed  
Waqas Munir, FRM

Category	Latest	Previous
Entity	BBB/A-3 Dec 12, '12	BBB/A-3 Jul 12, '11

### Outlook\*

\* Under Rating Watch-Developing Status since Sept 6, 2010

## Key Financial Trends



	2012	2011	2010
Net Financings (Rs. in b)	2.3	1.4	1.3
Profit / (Loss) (Rs. in m)	34.5	(39.2)	106.0
Equity, including surplus (Rs. in m)	(73)	(128)	(96)
Liquid Assets %	20.7	26.4	34.1
Borrowings	20.7	26.4	34.1
ROAA (%)	1.0	-1.3	3.0
Efficiency (%)	118.1	148.1	237.5
PAR(%)	22.2	31.6	59.5
Net Infection (%)	0.7	0.8	0.7

## Rating Rationale

During 2012, Kashf Foundation (KF) focused on streamlining its lending methodology which advocates lending to individuals as against group lending in the past and places greater emphasis on the viability of the business. Meanwhile, close liaison with the business is maintained by focusing on the cash flows of the business. During the year, KF augmented its loan book by 64.3% to Rs. 2.3b (end FY11: Rs. 1.4b). KF disbursed Rs. 3.9b (FY11: Rs. 2.3b) during the year with total number of active borrowers increasing to 286,443 at end FY12 (end FY11: 224,140). Loan portfolio remained concentrated in Kashf Karobar Karza (KKK) with around 97% (FY11: 96%) outstanding under this product. KF plans to further build up its loan portfolio to Rs. 3.6b by end FY13 by leveraging its existing branch network and setting up of additional 19 branches during FY13. New branches are planned to be opened in Sindh, Baluchistan and Khyber Pakhtunkhwa provinces, whereas KF already enjoys deep penetration within Punjab where 89% branches are concentrated out of the total branch network of 157 at end FY12.

KF offers loans to meet enterprise and consumption needs whereas lending under home improvement and emergency loan has been restricted. Following the events in 2008 which considerably eroded the equity of the institution, asset quality from the new portfolio has remained sound whereby portfolio at risk (PAR) under the new methodology has been maintained around 1%. Overall PAR was reported marginally lower at Rs. 654.1m at end FY12 (end FY11: Rs. 668.4m) translating into a gross infection ratio of 22.2% (2011: 31.6%). Overdue loans continue to be adequately provided, reflected by net infection ratio of 0.7% at end FY12 (end FY11: 0.8%). Improvement in internal controls and processes related to monitoring of loan portfolio are expected to keep a continuous check on the asset quality, going forward. However, asset quality is expected to be tested further as the portfolio is built up further. Further, expansion in other provinces may expose the institution to varying market dynamics.

In terms of internal capital generation, there is improvement on a timeline basis with an overall surplus reported in FY12 on the back of grant income. Accounting for grant income of Rs. 32.4m during FY12 (FY11: Rs. 87.9m), KF registered profit to the tune of Rs. 34.4m in FY12 (Loss for FY11: Rs. 39.2m). The availability of grants will continue to play an important role in generating positive earnings. Moreover, operating profit was reported in 1Q13, reflecting improvement in self-sufficiency indicators.

Leveraging has increased as growth has been fuelled by commercial borrowings. Total borrowings increased to Rs. 3.7b (FY11: Rs. 2.9b) during FY12. Sustainability in operational performance along with maintaining asset quality indicators is considered critical as current level of earnings has limited capacity to absorb the impact of any adverse development.

## Overview of the Institution

KF was incorporated in 2007 as a public limited company by guarantee and is licensed as a non-profit organization under section 42 of the Companies Ordinance, 1984. KF provides microfinance services to low income households and small scale entrepreneurs in order to enhance their economic role. The operational activities of KF are spread across five regions, four in Punjab and one in Sindh province with a branch network of 157 at end 2012 (end 2011: 147) JCR-VIS