Kashf Foundation

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

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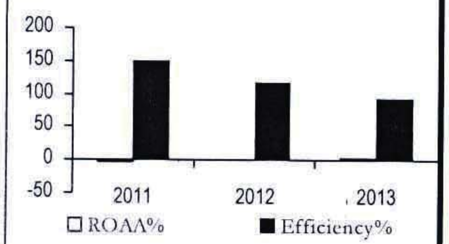
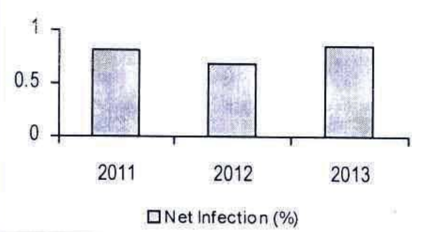
Category	Latest	Previous*
Entity	BBB/A-3	BBB/A-3
	Jan 07, '14	*Dec 12, '12*
Outlook	Stable	-

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

Key Financial Trends





	2011	2012	2013
Net Financings (Rs. in b)	1.4	2.3	2.9
Profit / (Loss) (Rs.in m)	-39.2	34.4	111.7
Equity (Rs. in m)	-217.6	-163.3	-30.6
Liquid Assets % Borrowings	26.7	21.8	19.8
ROAA (%)	-1.3	1.0	2.7
Efficiency (%)	148.1	118.1	93.5
PAR(%)	31.6	22.2	18.1
Net Infection (%)	0.8	0.7	0.9

Rating Rationale

Over the last three years, Kashf Foundation (KF) has re-built a sizeable performing portfolio by streamlining its lending methodology and instituting various checks during the pre and post disbursement stage. Gross outstanding portfolio of KF increased by around 20% during FY13 to Rs. 3.5b (end-FY12: Rs. 2.9b). Given higher funding requirement, total borrowings also increased to Rs. 4.2b by end-FY13 (FY12: Rs. 3.7b).

Higher microcredit loan portfolio enhanced KF's income yielding capability and net markup income increased during the period, although spreads were maintained at about 21%. Loan portfolio, the highest yielding asset on books comprised 63.4% of assets on a monthly average basis. Given that the entire balance sheet is funded by borrowings, reducing the time lag between mobilization of funding and deployment in loan portfolio may facilitate in further enhancement of earnings. At the same time, current liquidity level may be desirable, given the balance sheet composition. Liquid assets represented 19.8% of borrowings at year-end 2013.

KF posted profit of Rs. 111.7m for the out-going year; further internal capital generation in the first four months of the on-going year eliminated the deficit in cumulative equity. Equity, excluding surplus on revaluation of fixed assets, stood positive at Rs. 59.6m at end-Oct, 13 (FY13: negative Rs. 30.6m; FY12: negative Rs. 163.3m). Continuity in positive earnings may allow the institution to recover its financial strength through internal resources over time.

Total number of borrowers increased to 312,182 (FY12: 286,443) with 75,026 new clients tapped during FY13. Client retention ratio is estimated around 64% over the last three years. Previously classified loans have been fully provided while infection in fresh portfolio, built in recent years, remains minimal. The micro-credit loan portfolio is targeted to reach Rs. 4.3b by end FY14. Given the current loss absorption capacity, maintaining asset quality indicators while pursuing growth objectives, is considered critical.

Extensive reporting to the senior management provides a strong monitoring mechanism. Field staff conducts repayment capacity analysis including client visits and credit bureau checks. Moreover, internal audit department and risk and compliance function also conduct structured field visits on a sample basis. Risk management committee reviews trends of various key performance indicators against benchmarks as defined under Risk Management Framework.

KF has a structured product development process while the institution ensures that its products and services remain aligned with clients' needs. While Kashf Karobar Karza (KKK) remains the primary product of KF, new products have been introduced to cater to niche market segments. Moreover, in addition to life insurance coverage offered to clients, which primarily provides coverage for outstanding loan balance in case of death of client, KF also plans to introduce health insurance for its clients, in partnership with Jubilee Life Insurance Company Limited.

While having declined on a timeline basis, overheads remain high at 16.4%. To an extent, high overheads may be characteristic of the segment in which the institution operates. There is nevertheless room for improvement. In order to enhance operational efficiency, KF plans to introduce internal business process improvements, identification of niche markets and competence development of field staff to achieve future growth. The institution's credit policy advocates lending to individuals as against group lending methodology employed in the past. Given this, significant increase in average case load per BDO from the current levels may compromise client interaction capacity, a necessary feature of the business model.

Over the years, KF has emerged as a national level program with presence in all four provinces of the country. Branch network of KF increased to 174 at end-FY13 (FY12: 157) while further penetration is planned during the ongoing year in Khyber Pakhtunkhwa province. IT function continues to support operational expansion. Efficiencies are planned in the operational processes through the use of alternative delivery channels.

Board of Directors of KF comprises professionals carrying diverse background. Management team of the company has depicted stability.

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. The foundation provides micro-finance services to women, with the aim of alleviating poverty through gender empowerment and improving access to microfinance services. Head office of the company is situated in Lahore while its branch network of 174 (2012: 157) is spread across all provinces of Pakistan JCR-VIS