

Kashf Foundation

Chairman: Dr. Isbrat Hussain; President: Ms. Rosbaneh Zafar

June 17, 2008

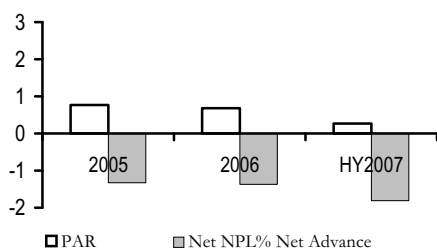
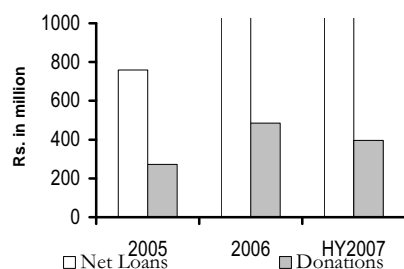
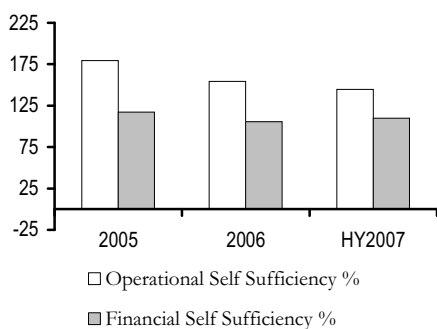
Analysts: Sobia Maqbool
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Rating Rationale

Category	Latest	Previous
Entity	BBB+/A-3	BBB+/A-3
	<i>Apr 3, '08</i>	<i>Jun 20, '07</i>
TFC-1	A	A
<i>Rs. 720m</i>	<i>Apr 3, '08</i>	<i>Jun 20, '07</i>
Outlook	Stable	Positive
	<i>Apr 3, '08</i>	<i>Jun 20, '07</i>

Kashf Foundation (KF) ventured into microfinance in 1996. While the foundation operates in the absence of complete supervisory regime, unlike the MFIs operating in the regulated sector, it has adopted sound governance practices on a voluntary basis and financial disclosures are also considered adequate. Integral to the business strategy of KF is achieving its social mission of alleviating poverty by providing quality and cost effective microfinance services to low income households, especially women, in order to enhance their economic role and decision-making capacity. The management and Board of Directors actively monitor progress against defined targets.

Key Financial Trends



In the outgoing year, the foundation has embarked upon an aggressive, growth-oriented financial plan, while maintaining sound asset quality indicators. This has exemplified in the asset base which has increased rapidly to Rs. 4.06b (FY06: Rs. 2.0b) as at December 31, 2007. Of this, lending operations remain the primary focus of the organization. The total loan portfolio stood at Rs. 3.08b as at year end FY07 (FY06: Rs. 1.54b). Aggregate infection has remained low, with PAR-30 at less than 1% of the loan portfolio. In spite of the rapid growth projected, KF has envisaged that PAR-30 will be maintained at less than 2% of the gross portfolio.

While maintaining controls and asset quality against the backdrop of rapid growth is critical, KF is considered to be well poised to take upon this challenge in view of its tested lending methodology and tailor-made software which ensures effective monitoring. The accuracy and timeliness of information generated by the MIS is considered sound. The foundation has extended geographical outreach by venturing into the province of Sindh. Credit cultures are unique across provinces on account of differences in entrepreneurial activity, economic profile, etc. While the amount of portfolio stemming from branches in Sindh is still small, asset quality indicators within this geographical segment will be keenly monitored as the size of this portfolio increases.

Funding sources have been diversified with the issue of a privately placed TFC over the last year. As of December 31, 2007, total borrowings amounted to Rs. 2.40b (FY06: Rs. 893.28m) while additional long term funding is also being raised to support the growth in loan portfolio. The ability of the foundation to call for equity funding is restricted on account of its legal structure, as being a non-profit guarantee limited company; KF does not have shareholders who may contribute capital in times of stress. Net worth of the institution has nevertheless enhanced over the years to Rs. 1.46b (FY06: Rs. 944.61m) on account of donated funds and surplus generated from operations. Debt leverage is projected to be maintained at under 5x over the rating horizon.

Both operational and financial self-sufficiency ratios have improved relative to 2006. Profitability indicators are healthy even after taking into account the high level of overheads innate to the microfinance business. Net profit amounted to Rs. 429.40m (FY06: Rs. 211.80m) for the outgoing year. As the proportion of market based borrowings increases in the funding mix, the cost of funds is likely to go up. However, cost of doing business on a per unit basis indicates an improvement in profitability indicators over time.

Overview of the Institution

Kashf Foundation was set up in 1996 as a micro-finance organization. Recently, the organization has changed its legal status to a non profit guarantee limited company and, as such, will now operate with a non profit organization and a microfinance bank. The foundation operates with a network of 154 branches as of December 31, 2007. It primarily caters to women, offering both group and individual loan products. JCR-VIS