

Kashf Foundation

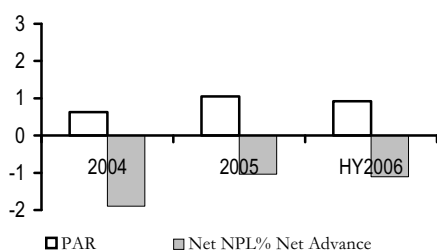
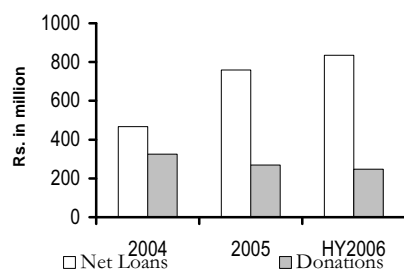
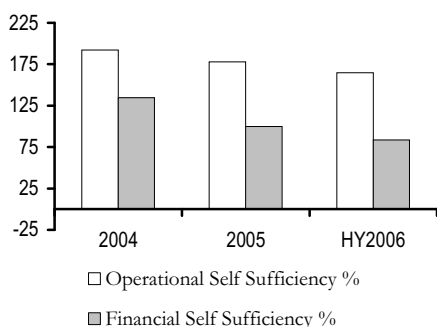
Chairman: Dr. Isbrat Hussain; President: Ms. Rosbaneh Zafar

February 8, 2007

Analysts: Mirza Fahad Begg
Faryal Ahmad

Category	Latest	Previous
Entity	BBB+/A-3 Feb. 8, '07	BBB/A-3 Oct. 27, '05
Outlook	Stable Feb. 8, '07	Positive Oct. 27, '05

Key Financial Trends



Rating Rationale

Kashf Foundation operates with an aim of poverty alleviation through gender empowerment and financial access to women in urban and semi-rural communities. Being registered as a Society since 1996, the foundation has been operational in the informal sector, where regulatory supervision is lacking. However the foundation on its own initiative has taken several measures to strengthen governance with an independent Board of Directors and specialized management committees. The foundation has also employed reputable auditors along with having undergone various donor directed audits and appraisals. It has also recently undergone a change in legal status from a society to a non-profit guarantee limited company under the Companies Ordinance, 1984.

Kashf benefits from a dedicated senior management team which has been associated with the organization for the past several years. The Board of Directors comprises members, both from the social and commercial sector. A reputable and experienced professional from the financial sector has recently joined the foundation on its board as the chairman to cater to its developing needs.

The foundation follows a group lending methodology with social collateral being the primary security. Nevertheless, the methodology has been well tested over the years of operations with low infection in assets. The methodology requires a high level of delegation of authority and responsibility at the field level and Kashf benefits from its highly standardized and simple work procedures, controls over which have been further strengthened through the complete implementation of an in-house developed integrated management information system at all branches. The management can now monitor the performance of each branch on a daily basis while portfolio tracking, client management and report generation capabilities have also been significantly enhanced.

One of the foundation's strengths over the years has been the sound quality of its financing portfolio. The net microfinance portfolio stood at Rs. 834m as at June 30, 2006 growing from Rs. 467m over a period of one and a half year, while gross infection remained around 1%, all fully provided for through general provisions. The total number of clients being served is well over 90,000 as at June 2006 while as per the foundation's projections Kashf will have an outreach of over 300,000 clients within the next 3 years and an outstanding portfolio of about Rs. 3.5b. To achieve these operational levels the foundation aims to increase its branch network to approximately 150 by the end of FY08 (HY06: 47 branches) and to expand its operational region out of Lahore as Karachi and its adjoining areas are also being considered for geographical diversification. Loan officers are projected to increase to over 1,200 (HY06: 464 LO's) with nearly the same level of productivity measures as currently maintained by the foundation. The deployed IT system is likely to substantially facilitate this growth planned for the coming years.

The foundation has an equity base of Rs. 657m which translates into approximately 51% of total resource base as at June 2006. Though currently the microfinance portfolio is largely equity financed, with the portfolio expected to reach Rs. 3.5b in three years, commercial sources of financing are being pursued. Privately placed term finance certificates are currently being negotiated through reputable commercial banks. A conditional grant from an organization in the United Kingdom will also facilitate the expansion. Although cost of borrowing is likely to increase in the coming periods, Kashf is likely to maintain its operational self sufficiency owing to its high yield on portfolio, its sound quality and low cost structure vis-à-vis lending rates.

Overview of the Institution

Kashf Foundation was set up in 1996 as a micro-finance organization, registered under the Societies Registration Act, 1860. It has however recently undergone a change in legal status to a non-profit guarantee limited company. The foundation operates in the suburban areas of Lahore and surrounding small towns with a network of 47 branches. It primarily caters to women, using social collateral as security against loans extended.