

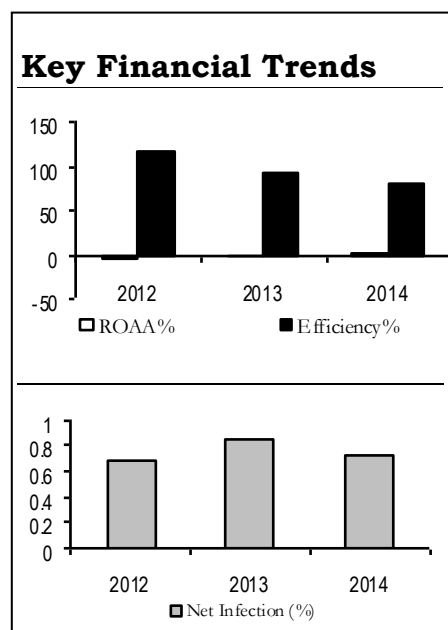
Kashf Foundation

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

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Category	Latest	Previous
Entity	BBB/ A-3 30 March'15	BBB/A-3 31 Dec'13
Outlook	Positive 30 March'15	Stable 31 Dec'13



	2012	2013	2014
Net Financings (Rs. in b)	2.3	2.9	3.7
Profit / (Loss) (Rs.in m)	34.4	111.7	298.3
Equity (Rs. in m)	-163.3	-30.6	282.4
Liquid Assets % Borrowings	21.8	19.8	16.9
ROAA (%)	-3.2	-0.3	3.2
Efficiency (%)	118.1	93.5	81.8
PAR(%)	22.2	18.1	1.2
Net Infection (%)	0.7	0.9	0.7

Rating Rationale

Operating performance of Kashf Foundation (KF) has continued to showcase improving trend. The institution has built a sizeable performing portfolio to sustain its operational cost. Asset quality of recent financings has also remained sound. With improved internal capital generation, equity base of the institution has augmented on a timeline basis. The institution is gradually building its equity towards historical levels. Nonetheless, debt to equity of the institution remains high while current level of equity has limited capacity to absorb losses. Maintaining sustainability in operational performance along with keeping asset quality intact is considered critical.

Gross loan portfolio of KF increased moderately to 3.8b at end-FY14 (FY13: Rs. 3.5b), lower than the targeted amount of Rs. 4.3b attributable to lower than anticipated funding from PPAF. In view of this, the institution has increasingly tapped commercial banks to meet its growing funding needs. Given KF's enhanced income yielding capability, efficiency improved to 77.3% (FY14: 81.8%) by end-1H15. Portfolio at Risk (PAR) declined to 1.2% at end-FY14 (FY13: 18.1%) on account of write-offs. Meanwhile, liquid asset as a proportion of total liabilities were lower at 16.9% at end-FY14 (FY13: 19.8%).

KF individual lending methodology has been in operation for more than five years and is fairly tested. The methodology assesses client's capital need along with repayment capacity through a detailed loan and business appraisal process. Client identification is followed by extensive screening by the branch and area staff. This allows prudent client selection and also mitigates the risk of over indebtedness. Meanwhile, post disbursement monitoring of the organization remains robust with BDO monitoring the utilization of each loan. A separate compliance department ensures enforcement of policies. High turnaround time, extensive documentation and strict monitoring have led to a high cost structure for the organization. Various initiatives have been taken to increase the efficiency of the institution including increasing the case load and rationalizing the reserve staff at the branch level.

In addition to the microfinance services, the institution provides ancillary services to its clients. A social performance dashboard has been developed which allows the management to monitor key social indicators. Client Protection Code has been implemented which spells that client's rights should be safeguarded at all times. To mitigate the risk of mission drift, the institution has strengthened its focus to lend to micro businesses with women participation. Moreover, client retention rate has slightly increased to 65% (FY13: 64%). KF's presence in rural areas remains limited while most of the branches are located in urban Punjab.

KF primary product remains Kashf Karobar Karza (KKK) which is offered to individual household for productive income generation and is backed by cash flow analysis. Keeping in view the rising cost of doing business, maximum credit amount under first loan cycle for KKK and Kashf Murabaha (KM) was increased to Rs. 30,000 (previously Rs. 25,000). Resultantly, the average loan size has also increased. Moreover, beginning FY15, pricing on all products was increased to 22% (previously 20%) while the documentation fee per loan application was reduced to Rs. 200 (previously Rs. 400); overall impact on profitability from change in pricing is expected to be positive. Keeping in view the regional differences, KM, lending product based on Islamic principles, was introduced during FY14 for expansion into KPK. The institution also initiated health coverage for each member of KF clients under Kashf Sehatmand Zindagi Bima.

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. Senior management team at KF comprises seasoned professionals which have shown stability over the years. Growing operations of the company are supported by a sound IT infrastructure. The institution operates through 185 branches at end-1HFY15 (FY14: 178; FY13: 174) JCR-VIS