

RATING REPORT

KASHF FOUNDATION (KF)

REPORT DATE:

April 01, 2016

RATING ANALYSTS:

Waqas Munir, FRM

waqas.munir@jcrvis.com.pk

Maham Qasim

maham.qasim@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-3	BBB	A-3
Rating Outlook	Stable		Positive	
Rating Date	March 25, '16		March 30, '15	

COMPANY INFORMATION

Incorporated in 2007	External auditors: M/s KPMG Taseer Hadi & Co
Unlisted Public Company Limited by Guarantee	Chairman of the Board: Mr. Mueen Afzal
	Managing Director: Ms. Roshaneh Zafar

APPLICABLE METHODOLOGY

JCR-VIS Entity Rating Criteria: Micro Finance Institutions

<http://www.jcrvis.com.pk/images/MicroFinance.pdf>

Kashf Foundation (KF)

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

RATING RATIONALE

The ratings assigned to Kashf Foundation (KF) takes into account ongoing improvement in the operating performance of the institution evident by improved profitability indicators on the back of growing micro credit portfolio. Ratings also draw comfort from KF's extensive experience in the microfinance sector, a well articulated lending methodology and a sound internal control infrastructure. Sustainability in core performance along with maintaining asset quality continues to remain critical to uphold positive momentum in internal capital generation.

Gross micro credit portfolio grew by around 22% during FY15; the pace of growth during the ongoing year has been slow owing to funding constraints. While Kashf Karobar Karza continues to be the flagship product, the institution is gradually building up the proportion of other products to diversify product mix. Under the ADS policy implemented in July, 2015, focus shifted on increasing the average loan size as against number of clients in the past; this is expected to make KF products more competitive vis-à-vis microfinance banks while also augmenting the efficiency of the institution. Moreover, client retention ratio has also improved on a timeline basis.

A robust internal control infrastructure has translated into sound asset quality indicators; incremental infection has remained low while provisioning coverage against non performing loans is adequate. A detailed cash flow analysis is conducted to evaluate client's repayment capacity; for repeat clients, past credit history is also considered. There is a loan ceiling for clients availing multiple loans. Compliance and Internal audit department monitor deviances from policies. IT infrastructure caters to the operational needs of the company and provide real time MIS for informed decision making.

A social performance dashboard is maintained on a bi-annual basis to monitor key performance. In March, 2015, KF became the first institution in Pakistan to receive Client Protection Certification from Smart Campaign highlighting institution's commitment and practice to treat clients fairly. Moreover, the institution was recognized as socially transparent and responsible MFI by Mix in Jan, 2016.

Liquid assets represented around one-fourth of total borrowings at end-1HFY16. Funding for the accelerated disbursement in the coming years is expected to be met mainly from existing sources including PPAF and commercial bank while management aims to tap international markets to diversify its funding sources. With growing equity base, debt metrics have also shown improving trend though still remain on the higher side.

Profitability of the institution continues to showcase improving trend owing to higher earning asset base. While return on markup bearing asset largely remained unchanged, spreads of the institution has improved in the ongoing year on account of lower finance cost, inline with lower benchmark rates. Overheads continue to rationalize on a timeline basis while loan loss provisioning remained modest. During the outgoing year, KF booked impairment to the tune of Rs. 87.3m against the loan extended to KHL. The loan was rescheduled for the second time during the outgoing year; additional provisioning against the same may occur in the coming years.

The management team of KF comprises seasoned resources with extensive experience in the microfinance sector. Stability in the senior management team has translated into successful execution of strategic plan. The institution also benefits from the diversity of experience of its Board members.

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	Dec 31, 2015	June 30, 2015	Dec 31, 2014	June 30, 2014
Total Investments	1,090.4	1,183.7	1,437.0	455.0
Net Financing	4,586.7	4,479.8	3,697.9	3,678.3
Total Assets	7,077.6	7,010.8	6,165.6	5,311.2
Borrowings	5,573.2	5,967.6	5,385.8	4,692.7
Tier-1 Equity	1,008.4	620.2	400.7	282.4
Net Worth	1,140.0	751.7	532.3	414.0
<u>INCOME STATEMENT</u>	Dec 31, 2015	June 30, 2015	Dec 31, 2014	June 30, 2014
Net Mark-up Income	780.9	1,181.2	499.0	980.4
Net Provisioning / (Reversal)	5.7	20.3	5.3	15.5
Non-Markup Income	107.0	136.6	63.0	126.8
Operating Expenses	425.3	921.5	392.3	712.4
Profit	378.0	321.1	116.2	298.3
<u>RATIO ANALYSIS</u>	Dec 31, 2015	June 30, 2015	Dec 31, 2014	June 30, 2014
Gross Infection (%)	0.9%	1.2%	1.1%	1.2%
Net Infection (%)	0.6%	1.0%	-	0.7%
Net NPLs to Tier-1 Capital (%)	2.9%	7.7%	-	9.5%
Markup Spreads (%)	23.8%	21.4%	20.4%	23%
OSS (%)	150.2%	116.6%	127.2%	121.6%
ROAA (%)	10.7%	5.2%	4.1%	6.0%
Liquid Assets to Total Borrowings (%)	25.3%	14.4%	15.8%	16.9%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES		Appendix IV			
Name of Rated Entity	Kashf Foundation (KF)				
Sector	Micro Finance Institution (MFI)				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	25-March-16	BBB+	A-3	Stable	Upgrade
	30-March-15	BBB	A-3	Positive	Maintained
	07-Jan-14	BBB	A-3	Stable	Reaffirmed
	12-Dec-12	BBB	A-3	Rating Watch - Developing	Reaffirmed on Rating Watch
	12-Jul-11	BBB	A-3	Rating Watch - Developing	Reaffirmed
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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