RATING REPORT

KASHF FOUNDATION (KF)

REPORT DATE:
April 5, 2017

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-3	BBB+	A-3
Rating Outlook	Stable		Stable	
Rating Date	*April 5, '17*		*March 25, '16*	

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. It is also licensed to carry investment finance services as Non-Banking Finance Company under NBFC rules 2015. KF provides microfinance services to low income households and small scale entrepreneurs in order to enhance their economic role

RATING RATIONALE

The ratings reflect improving risk profile of Kashf Foundation (KF), emanating from strengthening of equity base, an outcome of enhanced profitability. Ratings also take into account maintenance of sound asset quality amid expanding micro-credit portfolio. KF's extensive experience in the microfinance sector, a well-articulated lending methodology and a sound internal control infrastructure remain key rating factors. Given the management's plan to rapidly expand loan portfolio, access to fresh funding while maintaining good asset quality will remain critical.

While gross microcredit portfolio stood largely stagnant by end-FY16 at Rs. 4.6b (FY15: 4.6b), the expansion phase has been initiated during 1HFY17. Focusing on expanding outreach, network of KF increased to 204 branches (FY16: 187; FY15: 183) by end-1HFY17. The management intends to open 31 more branches in 2HFY17. While loan gross portfolio augmented to Rs. 5.9b by end-1HFY17, it is targeted to reach Rs. 7b by year end. Although Kashf Karobar Karza (KKK) continues to dominate the product mix, the institution is gradually building up the proportion of other products to diversify product mix. The management plans to increase both the number of clients and average loan size to achieve higher disbursement targets. Client retention ratio, albeit remained adequate, still has room for improvement.

The management is taking various initiatives to improve KF's overall efficiency. More intensive BDO training programmes are being undertaken in order to increase their productivity. Moreover, under the smart branch initiative, tablets are being introduced in branches for loan appraisals and approvals. Tablets have already been rolled out in Region-1 having 29 branches while rest of the branches are planned to be switched latest by end-FY18.

A robust internal control infrastructure has translated into sound asset quality indicators; incremental infection has remained low while provisioning coverage against non-performing loans (NPLs) is adequate. During 1HFY17, the institution managed to maintain PAR at 0.8% amid considerable increase in micro-credit portfolio while net infection (specific provision) remaining modest at 0.5% at end-1HFY17 (FY16: 0.6%; FY15: 1.1%).

KF mobilized additional funding during 1HFY17 to finance its expanding loan book; total borrowings increased to Rs. 6.7b by end-1HFY17 (FY16: 5.5b FY15: Rs. 6b). With around half of funding arranged from revolving finance facility of Pakistan Poverty Alleviation Fund (PPAF), various commercial banks were also tapped under SBP's Microfinance Credit Guarantee Facility. In addition, KF has mobilized notable funds from foreign agencies. Liquid assets represented around one-fourth of total borrowings at end-1HFY17. Leverage indicators have also shown consistently improving trend on account of growing equity base.

During FY16, profitability of the institution showcased considerable improvement mainly on the back of increase in average earning asset base and higher average mark-up rates. However, beginning FY17, KF reduced mark-up rate on almost all products by 2%. The company also decided to pay life insurance premium which had previously been charged from clients. This along with acceleration in operating expenses, an outcome of rapid branch expansion, profitability is expected to be lower than FY16. Similar trend is evident in 1HFY17, wherein KF reported a net profit of Rs. 225.5m (FY16: Rs. 741.7; FY15: 321.1).

By end-FY16, four board members rendered their resignation on account of frequent non-availability to attend Board meetings. One casual vacancy has recently been filled. The institution continues to benefit from the diverse experience of its currently nine Board members. A seasoned management team of KF exhibits stability which is pivotal for effective implementation of business plan.

Kashf Foundation (KF) — Annexure III

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2016**	**June 30, 2016**	**Dec 31, 2015**	**June 30, 2015**
Total Investments	851.0	627.3	1,090.4	1,183.7
Net Financing	5,874.7	4,516.7	4,586.7	4,479.8
Total Assets	8,994.3	7,370.0	7,077.6	7,010.8
Borrowings	6,696.7	5,535.2	5,573.2	5,967.6
Tier-1 Equity	1,606.0	1,373.4	1,008.4	620.2
Net Worth	1,807.6	1,575.0	1,140.0	751.7
INCOME STATEMENT	**Dec 31, 2016**	**June 30, 2016**	**Dec 31, 2015**	**June 30, 2015**
Net Mark-up Income	787.6	1,573.8	780.9	1,181.2
Net Provisioning / (Reversal)	14.4	(25.3)	5.7	20.3
Non-Markup Income	67.0	191.9	107.0	136.6
Operating Expenses	561.5	861.8	425.3	921.8
Profit	225.5	741.7	378.0	321.1
RATIO ANALYSIS	**Dec 31, 2016**	**June 30, 2016**	**Dec 31, 2015**	**June 30, 2015**
Gross Infection (%)	0.8%	0.8%	0.9%	1.2%
Net Infection (%)	0.5%	0.6%	0.6%	1.0%
Net NPLs to Tier-1 Capital (%)	1.9%	2.0%	2.9%	7.7%
Markup Spreads (%)	20.2%	22.5%	23.8%	20.0%
OSS (%)	127.3%	150.0%	150.2%	116.6%
ROAA (%)	5.5%	10.3%	10.7%	5.2%
Liquid Assets to Total Borrowings (%)	24.0%	30.0%	25.3%	14.4%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Annexure IV

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 — Annexure V

Name of Rated Entity	Kashf Foundation (KF)
Sector	Micro Finance Institution (MFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
05-April-17	BBB+	A-3	Stable	Reaffirmed
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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