RATING REPORT

KASHF FOUNDATION (KF)

REPORT DATE:
April 18, 2018

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 12, 2018*		*October 31, '17*	

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.

Profile of Chairman

Mr. Mueen Afzal, a senior bureaucrat, is the chairman of the board. His career spans over more than five decades and he was bestowed with Hilal-i-Imtiaz in recognition of his distinguished public service. Currently, he is the chairman of the Pakistan Tobacco Company Limited and a Board member of ICI Pakistan Limited, Pakistan Centre for Philanthropy

Profile of MD

Ms. Roshaneh Zafar is the founder and Managing Director (MD) of KF. She is a graduate of the Wharton Business School, University of Pennsylvania, USA and also holds a Masters degree in International Development from Yale University, USA. She has been awarded Tamgha-e-Imtiaz by the President of Pakistan for her work in the field of women empowerment

Equity

FY17: Rs. 1.37b; FY16: Rs. 610.5m

Net Profit

FY17: Rs. 578.1m; FY16: Rs. 745.7m

RATING RATIONALE

Key Rating Drivers:

The ratings assigned to Kashf Foundation (KF) incorporate continuing equity enhancement through retention of healthy profits leading to improving risk profile. The company has reduced pricing of its product suite, thereby passing on the benefit to its customers. However, the company is expected to sustain profitability on the back of enhanced business volumes. While the company currently has sound asset quality indicators, maintenance of the same amid rapidly expanding credit portfolio remains critical to the ratings. The ratings also recognize KF's considerable experience in the fast growing microfinance sector along with its demonstrated ability to mobilize local and international funding.

Loan Portfolio: In line with the growth targets set by KF for FY17 and onwards; gross micro credit portfolio registered a 58% growth YoY, increasing to Rs. 7.2b (FY16: 4.6b) by end-FY17. The network expanded to 249 branches (FY16: 187) by end-FY17; 30 more branches are planned to be commissioned by end-Jan 2018. Product mix of KF currently comprises ten loans and one insurance product; the loan volumes remained dominated by Kashf Karobar Karza. During the period under review, the company launched two products i.e. Kashf Maweshi Karza and Kashf Madadgar Karza, to further broaden the product base of the company. 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.

Efficiency: KF is taking various initiatives to further improve internal efficiency. The company plans to increase workload per BDO; in this context, extensive training programs are being conducted for BDOs and branch staff. The company also has a research setup, which facilitates management decision making. The management has been able to rollout tablets across six regions of KF's distribution network to ensure quick loan appraisal and approvals.

Asset Quality: Asset quality indicators, though somewhat increased on a timeline basis, have remained low while provisioning coverage against non-performing loans (NPLs) has remained adequate. During FY17, the PAR increased marginally to 1% (FY16: 0.8%) while net infection (specific provision) stood at 0.8% (FY16: 0.6%; FY15: 1.1%) at end-FY17. Given considerable growth targets of micro credit portfolio, asset quality needs to remain under control, going forward.

Funding & Liquidity: To fund its ambitious business plans, KF has raised financing from both domestic and cross border avenues in FY17 (total borrowing FY17: Rs. 8.4b; FY16: Rs. 5.5b). More funding is in the pipeline to continue growth momentum in the ongoing year. The borrowing mix (domestic) is dominated by various term loan facilities from commercial banks, followed by revolving lines of credit by Pakistan Poverty Alleviation Fund (PPAF). The company is also utilizing funds from Pakistan Microfinance Investment Company Limited (PMIC). Foreign funding stood at Rs. 1.52b at end-FY17; out of which Rs. 220m was unhedged at that point in time. According to the management, the said portion of borrowings was under regulatory approval and was hedged shortly afterwards; no foreign borrowings are left unhedged as per the company internal policy. Liquid assets represented around one-fourth of total borrowings at end-FY17. Debt to equity remained well within the internal benchmark of KF.

Profitability: During FY17, top line showcased considerable improvement on back of a larger micro credit portfolio. However, reduced mark-up rate on almost all products by 2% flat along with acceleration in operating expenses, an outcome of rapid branch expansion, had a drag on the bottom line during FY17. Moreover, the company decided to pay life insurance premium which had previously been charged from clients. The company also booked impairment on loan to an associate amounting Rs. 140m during the outgoing year. Resultantly, net profit stood lower at Rs. 578m during FY17 (FY16: Rs. 746m).

Board & Management: By end-FY16, four board members rendered their resignation on account of frequent non-availability to attend Board meetings. While the institution continues to benefit from the diverse experience of its Board members. A seasoned management team of KF exhibits stability which is pivotal for effective implementation of business plan.

Kashf Foundation (KF) Annexure I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
Total Investments	762.6	627.3	1,183.7
Net Financing	7,158.4	4,516.6	4,479.8
Total Assets	10,969.3	7,400.8	7,037.3
Borrowings	8,412.5	5,535.2	5,967.6
Tier-1 Equity	1,955.6	1,367.0	610.5
Net Worth	2,165.1	1,568.7	742.1
INCOME STATEMENT	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
Net Mark-up Income	1,863.2	1,523.8	1,181.2
Net Provisioning / (Reversal)	29.6	(25.3)	20.3
Non-Markup Income	143.7	266.5	136.6
Operating Expenses	1,203.6	841.1	921.8
Other Expenses	225.2	203.5	
Profit	578.1	745.7	321.1
RATIO ANALYSIS	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
Gross Infection (%)	1.0%	0.8%	1.2%
Net Infection (%)	0.8%	0.6%	1.0%
Net NPLs to Tier-1 Capital (%)	2.9%	2.0%	7.7%
Markup Spreads (%)	21.6%	22.5%	20.0%
OSS (%)	122.0%	150.0%	116.6%
ROAA (%)	6.3%	10.3%	5.2%
Liquid Assets to Total Borrowings (%)	26.0%	30.0%	14.4%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure II

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 III

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				
12-April-18	BBB+	A-3	Stable	Reaffirmed
05-April-17	BBB+	A-3	Stable	Reaffirmed
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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