RATING REPORT

KASHF FOUNDATION (KF)

REPORT DATE:
May 15, 2019

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	BBB+	A-3
Rating Outlook	Stable		Stable	
Rating Date	*May 13, 2019*		*April 12, 2018*	

COMPANY INFORMATION

Incorporated in 2007	**External auditors:** M/s Deloitte Yousaf Adil Chartered Accountants
Unlisted Public Company Limited by Guarantee	**Chairman of the Board**: Mr. Mueen Afzal
	Managing Director: Ms. Roshaneh Zafar

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Micro Finance Institutions
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-MFBs201606.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

Dr. Attiya Inayatullah is acknowledged in the fields of international relations, human rights, women's empowerment, population and Social development at both the global level and in Pakistan. She has served as Federal Minister for Women's Development, Population Planning and Social Welfare three times. As the longest serving woman parliamentarian she has a record of initiating women and child related legislation. She has also served as the as Chairperson/President of International Planned Parenthood Federation for a decade

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

FY18: Rs.2.8b ; FY17: Rs. 2.0b; FY16: Rs.1.4b

Net Profit

FY18: Rs. 821.3m; FY17: Rs.

RATING RATIONALE

Key Rating Drivers:
The ratings assigned to Kashf Foundation (KF) take into account improvement in financial risk profile of the institution emanating from augmentation of equity base in line with enhanced profitability on account of continued growth in micro-credit portfolio. Ratings derive strength from sound asset quality indicators; the maintenance of whom is considered crucial to sustain profitability in line with sizable increase in business operations. KF's extensive experience in the microfinance sector, a well-articulated lending methodology and a sound internal control infrastructure remain key rating factors. In addition the rating also incorporate ease of access and mobility of foreign funding to support growth initiatives in the medium term.

Loan Portfolio: In line with the growth targets set by KF for FY18 and onwards; gross micro credit portfolio registered a 45% growth YoY, increasing to Rs. 10.5b (FY17: 7.3b) by end-FY18. To meet the expansion targets the institution expanded its branch outreach to to 291 (FY18: 249) branches at end-FY18. To improve portfolio monitoring and scrutiny, the branch network is now segregated into north and south zones, which are supervised by each zonal head. Going forward, to meet the target of 1.0m clients by end FY22, the management plans on opening 65 new branches during the financial year ending on 30 June 2020. Product mix of KF currently comprises eight loans and two insurance product; the loan volumes remained dominated by Kashf Karobar Karza. During the period under review, to increase the average loan size to tackle growing inflation the minimum and maximum credit amounts allowed under various lending products were enhanced. However, tenor and pricing for the product suite remained unchanged. Going forward, the management plans to increase both the number of clients and average loan size to achieve higher disbursement targets through loan digitalization with the roll of credit scorecard. The proportion of women headed businesses and client retention ratio exhibited a positive trend; however the same still has room for improvement.

Efficiency: KF is taking various initiatives to further improve internal efficiency at the institutional level. The company plans to increase further improve the productivity levels at the BDO tier; 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 rolled out tablets across the entire KF's distribution network to ensure quick loan appraisal and reduction in turnaround time.

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 FY18 despite considerable increase in micro-credit loans, the PAR and net infection increased marginally. 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 international lenders in FY18. Going forward, the management plans on issuing a privately placed term finance certificate amounting to Rs. 2.0b during FY19 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 Microfinance Investment Company (PMIC). Meanwhile, the foreign funding stood at

578.1m; FY16: Rs. 745.7m

Rs. 3.5b at end-FY18. However, in line with increase in quantum of borrowings the liquid assets represented around 22% of total borrowings at end-FY18. Further, debt to equity remained well within the internal benchmark of KF.

Profitability: During FY18, a positive trend was witnessed in the top line as a result of enhancement of a larger micro credit portfolio. Despite no reduction in the markup rate charged on the product portfolio, the markup spreads declined on a timeline basis in line with increased cost of funding as a result of higher benchmark rates. On the other hand, the management expenses were largely rationalized as a result of improved BDO efficiency and credit scorecard rollout. Therefore, the operating self-sufficiency (OSS) exhibited a positive trend during the outgoing year. Going forward, the institution is likely to maintain positive momentum in earnings and bottom line on account of growth projected in total client base, client retention and geographical outreach.

Board & Management: Mr. Riaz Hussain resigned from the Board during FY18; the casual vacancy was filled by Mr. Arif Masud Mirza. 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, 2016**	**June 30, 2017**	**June 30, 2018**
Total Investments	627.3	762.6	1,053.3
Net Financing	4,516.6	7,158.4	10,512.2
Total Assets	7,400.8	10,969.3	14,389.0
Borrowings	5,535.2	8,412.5	10,878.5
Tier-1 Equity	1,367.0	1,955.6	2,785.9
Net Worth	1,568.7	2,165.1	2,995.4
INCOME STATEMENT	**June 30, 2016**	**June 30, 2017**	**June 30, 2018**
Net Mark-up Income	1,523.8	1,863.2	2,115.2
Net Provisioning / (Reversal)	(25.3)	29.6	64.3
Non-Markup Income	266.5	143.7	218.2
Operating Expenses	841.1	1,203.6	1,514.6
Profit	745.7	578.1	821.3
RATIO ANALYSIS	**June 30, 2016**	**June 30, 2017**	**June 30, 2018**
Gross Infection (%)	0.8%	1.0%	1.25%
Net Infection (%)	0.6%	0.8%	1.1%
Net NPLs to Tier-1 Capital (%)	2.0%	2.9%	4.0%
Markup Spreads (%)	22.5%	21.6%	19.0%
OSS (%)	150.0%	128.8%	129.0%
ROAA (%)	10.3%	6.3%	6.5%
Liquid Assets to Total Borrowings (%)	30.0%	26.0%	22.3%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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		
13-May-19	A-	A-2	Stable	Upgrade
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	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	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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