



The Pakistan Credit Rating Agency Limited

## Rating Report

### Kashf Foundation

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Sep-2022	A-	A2	Stable	Maintain	-
25-Sep-2021	A-	A2	Stable	Maintain	Yes
25-Sep-2020	A-	A2	Stable	Maintain	Yes
27-Sep-2019	A-	A2	Stable	Maintain	-
19-Jun-2019	A-	A2	Stable	Maintain	-
24-Dec-2018	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Kashf Foundation is a renowned Microfinance Institution (MFI); it has been in operation since 1996. MFIs are governed by SECP regulations mainly NBFC (Establishment and Regulations) Rules, 2003, Non-Banking Finance Companies and Notified Entities Regulations 2008, and others. The key element is that MFIs are not permitted to mobilize deposits. While this provides funding constraints, it also delimits the boundaries of risk. Kashf Foundation is a not-for-profit organization. Hence, the source of funding comprises a) internal generation of profits, b) loans and c) grants. The second major source of funding is borrowing. The Foundation has diversified its borrowing to local and foreign institutions and issued a (PPTFC) of PKR 2bln with a green shoe option of PKR 1bln to fuel growth. Governance structure takes strength from the body of members and board of directors, who, in their own right, are reputable individuals. The induction process reflects the alignment of the incumbent members to the institution itself, a self-propelling drive to contribute. The quality of board discussions is evidence of this assertion. Kashf has a stable and experienced senior management team which is supported by clear reporting lines as per a formalized organogram and a satisfactory monitoring process. The ratings incorporate a strong business profile of the Foundation demonstrated by the continued enhancement in business volumes. GLP recorded good growth which led to enhanced markup earned. Improved cost of funds resulted in an uptick in the spread. Strengthened markup and non-mark-up income supplemented the profitability. Maintaining asset quality intact remains essential, going forward. The Institution's financial risk profile displays a comfortable outlook with fine profitability margins and improvement in asset quality. Hereby, the liquidity profile of the Foundation remains one of the finest in the industry. The industry's few parameters require prudent management due to the most recent flood situation in the country. The impact is being evaluated and would translate into an emergent financial risk profile.

The ratings depend on the foundation's ability to sustain positive asset health indicators amidst growth in business volumes. The ratings would also monitor the impact of technological advancement on the operational and risk efficacy of the Foundation.

#### Disclosure

<b>Name of Rated Entity</b>	Kashf Foundation
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Microfinance Institution Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Microfinance(Sep-21)
<b>Rating Analysts</b>	Iram Shahzadi   iram.shahzadi@pacra.com   +92-42-35869504

## Profile

**Structure** Kashf Foundation is the first Microfinance Institution of the country. It is licensed by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies Rules, 2003.

**Background** Kashf was established in 1996 and began operations as a Grameen replicator. It was incorporated with the SECP in 2007 as a public company limited by guarantee under Section 42 of the Companies Ordinance, 1984 (now Companies Act, 2017).

**Operations** Kashf operates at a national level with a network of over 341 branches. The Foundation extends small loans to the underprivileged communities with a maturity of less than or equal to one year. Most of the Foundation's portfolio is concentrated in urban areas of Punjab. The main product of the Foundation is the "Kashf Karobar Karza" loan which is provided to boost entrepreneurship in the country. Most of the Foundation's clientele is female.

## Ownership

**Ownership Structure** Overall control of the foundation vests with 10 members. All members have deposited certain amount of guarantee in the Foundation as per the Companies Act, 2017 requirements.

**Stability** Kashf has a proper succession plan in place which is expected to remain unchanged, going forward.

**Business Acumen** Members of the Foundation are experienced professionals and have suitable skills to direct the Foundation in achieving its objectives.

**Financial Strength** The probability of the Foundation getting financial support from members is low since the Foundation is registered as a not-for-profit organization under section 42 of the Companies Ordinance 1984 (now Companies Act, 2017).

## Governance

**Board Structure** Kashf has ten-member board of directors (BODs). Dr. Hafiz Ahmed Pasha is the chairman of the board.

**Members' Profile** The board members have extensive experience in the sector. The Chairman - Dr. Hafiz Ahmed Pasha is a is the Dean of the School of Liberal Arts and Social Sciences at the Beaconhouse National University, Lahore, and Vice-Chairman of the Institute of Public Policy, Lahore.

**Board Effectiveness** There are five sub-committees to assist the board, namely (i) Audit Committee, (ii) Credit, Program & Finance Committee (iii) Human Resource Committee (iv) Investment Committee and (v) Nomination Committee. Attendance during the meetings was good and minutes were properly documented.

**Transparency** KPMG Chartered Accountants are the External Auditors of the foundation. They expressed an unqualified opinion on the financial statements for the year Ended June'22. The internal Audit Department of the foundation reports directly to the Audit Committee. The compliance department is also in place which conducts regular inspections of all relevant departments.

## Management

**Organizational Structure** Kashf operations are grouped under eleven departments. Functions are distributed among head office and branches. Core lending activities are carried out at the branch level.

**Management Team** The Foundation has a mix of diverse experience and skilled management. Ms. Roshaneh Zafar, the CEO, is one of the founding members of the Foundation having experience of over two decades. She is a renowned philanthropist and is assisted by an experienced management team.

**Effectiveness** The Foundation has a systematic decision-making process. There have seven members management committees in place. Each department head ensures smooth operations of their department and reports to the Chief Executive Officer on pertinent matters.

**MIS** Most of the departments are integrated which adds to effective decision making by the management.

**Risk Management Framework** A proper risk management policy to manage operational and credit risk is in place. A loan approval process is decentralized at the branch level. Recovery of all loans is being done through different agents.

**Technology Infrastructure** Kashf is continuously investing in its technological infrastructure to increase automation and efficiency in the departments which is a need of time in the microfinance industry. The increased automation would result in expediting the loan recovery process, providing good surveillance, and helping to keep its infection ratio in check.

## Business Risk

**Industry Dynamics** Pakistan Microfinance Industry (MFI) comprises of 50 microfinance providers including 30 microfinance institutions (MFIs). Active Borrowers continued the increasing trend as 8.5mln borrowers were achieved during CY22, an increase of 5.6% compared to CY21. Similarly, the GLP surpassed PKR 448bln during CY22, an increase of 26.1% compared to the GLP in CY21. Further analysis explains the major contribution in the growth of active borrowers and GLP was contributed by the MFB peer group where Mobilink MFB was at the top of list due to significant adoption of digital credit and a greater outreach to customer base. NBMFCs peer group also contributed to the increase by adding 94,000 active borrowers and PKR 2.6bln in GLP. In case of MFBs, PAR > 30 days slightly increased to 5.3% (CY21: 5.2%). However, the PAR > 30 days of MFIs recovered to report at 4.1% in CY22 (CY21: 5.5%).

**Relative Position** Considering the market share of ~5% in term of GLP of whole industry, the foundation is considered as a relatively mid-tier player in the Microfinance sector and one of the largest Microfinance Institution. It is one of the oldest players in the MFIs industry which has enabled it to develop a strong relationship with the borrowers.

**Revenue** Despite the challenging environment, Kashf was enabled to earn an interest income of PKR 6,653mln in FY22 with the incline of PKR 1,652mln YoY basis (FY21: PKR 5,001mln). This incline is mainly due to the significant increase in return on loans. Return on investment & bank deposits, clocked at PKR 646mln (FY21: PKR 633mln) whereas mark-up on micro-credit loan constitutes 88.4% of total interest income.

**Profitability** Kashf's earning assets constitute 94.8% of the total assets, grew by 29.7% to earn maximum returns from its asset base. In 2022 the profitability of the company significantly increased to PKR 1,935mln (FY20: PKR 769mln), reason of increase in profitability is mainly due to increase in the markup and non-markup income.

**Sustainability** Kashf's primary objective is to strengthen its market position with the ultimate aim of financial inclusion in the country. To achieve the stated objective, Kashf has diversified its products base on a timeline basis. For geographical penetration, the foundation has already developed goodwill to attract potential clients. A customer-centric business approach has been adopted. However, recovery from infected portfolio would remain one of the key challenges for Kashf, going forward.

## Financial Risk

**Credit Risk** Kashf is one of the largest lenders in MFIs and has designed a decentralized loan approval and disbursement process at the branch level. To mitigate the asset risk the foundation has developed a strong control & recovery mechanism. Despite generally decelerated loan demand, Kashf maintained GLP at PKR 20,503mln as at end-Jun22 (FY21: PKR 16,199mln). The asset quality observed a witnessed decline in NPLs and clocked at PKR 313mln during FY22.

**Market Risk** The Foundation's investment portfolio constituting 13.2% of the total earning assets (FY21: 5.4%). The financial assets used for hedging in overall investments stood at 31.2% (FY21: 7.5%). Any upward fluctuation in policy rates will increase the financing cost of the Foundation as all local long term borrowing carry floating interest rate.

**Funding** Kashf has mobilized mostly all funds from both local and foreign borrowers. Total debt of the foundation as at FY22 increased by 27% to PKR 23,510mln (FY21: PKR 18,476mln). A slight downward moment in advances to borrowings ratio to 87% from 89%.

**Cashflows & Coverages** During FY22, with an upward movement in Kashf's liquidity position. The Foundation's liquid assets to borrowings ratio remained high at 44% as compared to 39% in FY21 on account of growth in deposits with banks to PKR 6,270mln (FY21: 5,853mln).

**Capital Adequacy** SECP has no minimum requirement for MFIs unlike SBP which require MFBs to maintain their CAR at 15%. Equity of the foundation stood at PKR 7,231mln as at FY22 (FY21: PKR 5,295mln).



**Kashf Foundation**  
**Listed Public Limited**

Jun-22	Jun-21	Jun-20
12M	12M	12M

**A BALANCE SHEET**

1 Total Finances - net	20,684	16,379	13,830
2 Investments	4,053	1,369	3,656
3 Other Earning Assets	6,270	5,853	5,787
4 Non-Earning Assets	1,301	1,326	1,635
5 Non-Performing Finances-net	(20)	88	(317)
<b>Total Assets</b>	<b>32,287</b>	<b>25,016</b>	<b>24,590</b>
6 Deposits	-	-	-
7 Borrowings	23,510	18,476	19,154
8 Other Liabilities (Non-Interest Bearing)	1,360	857	883
<b>Total Liabilities</b>	<b>24,871</b>	<b>19,333</b>	<b>20,038</b>
<b>Equity</b>	<b>7,231</b>	<b>5,296</b>	<b>4,518</b>

**B INCOME STATEMENT**

1 Mark Up Earned	6,653	5,001	5,151
2 Mark Up Expensed	(2,664)	(2,022)	(2,641)
3 Non Mark Up Income	1,222	799	737
<b>Total Income</b>	<b>5,212</b>	<b>3,778</b>	<b>3,247</b>
4 Non-Mark Up Expenses	(3,090)	(2,522)	(2,578)
5 Provisions/Write offs/Reversals	(186)	(487)	(459)
<b>Pre-Tax Profit</b>	<b>1,935</b>	<b>769</b>	<b>210</b>
6 Taxes	-	-	-
<b>Profit After Tax</b>	<b>1,935</b>	<b>769</b>	<b>210</b>

**C RATIO ANALYSIS**

**1 Performance**

Net Mark Up Income / Avg. Assets	13.9%	12.0%	11.0%
Non-Mark Up Expenses / Total Income	59.3%	66.7%	79.4%
ROE	30.9%	15.7%	4.7%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	22.4%	21.2%	18.4%
Capital Adequacy Ratio	N/A	N/A	N/A

**3 Funding & Liquidity**

Liquid Assets / (Deposits + Borrowings Net of Repo)	44.3%	39.5%	51.0%
(Advances + Net Non-Performing Advances) / Deposits	N/A	N/A	N/A
Demand Deposits / Deposits	N/A	N/A	N/A
SA Deposits / Deposits	N/A	N/A	N/A

**4 Credit Risk**

Non-Performing Advances / Gross Advances	1.5%	3.6%	1.9%
Non-Performing Finances-net / Equity	-0.3%	1.7%	-7.0%

**Credit Rating**

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	<b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

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(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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