



The Pakistan Credit Rating Agency Limited

Rating Report

Kashf Foundation | PPTFC

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Sep-2021	A	-	Stable	Maintain	Yes
25-Sep-2020	A	-	Stable	Maintain	Yes
01-Oct-2019	A	-	Stable	Initial	-
19-Jun-2019	A	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Kashf Foundation is a renowned Microfinance Institution (MFI) and a not-for-profit organization. The key element is that MFIs are not permitted to mobilize deposits. While this provides funding constraints, it also delimits the boundaries of risk. The key source of funding comprises a) internal generation of profits, b) loans and c) grants. The second major source of funding is borrowings. Governance structure takes strength from the body of members and board of directors, who, in their own right, are reputable individuals. Kashf has a stable and experienced senior management team which is supported by clear reporting lines as per a formalized organogram and satisfactory monitoring process. The ratings incorporate a strong business profile of the Foundation demonstrated by continued enhancement in business volumes. GLP recorded good growth which led to enhanced mark up earned. Improved cost of funds resulted in an uptick in the spread. Strengthened non-mark up income supplemented the profitability despite higher provisioning expense being recorded. Maintaining asset quality intact remains essential, going forward. Meanwhile, the “Rating Watch” reflects the need to oversee the risk profile of the Institution against unavoidable challenges, particularly emanating from economic Implications in the wake of Covid-19, and its ramifications on the disposable income of the customer base. The impact of economic slowdown lately exacerbated by the global pandemic spread had cast a rippling effect on different sectors of the country. The microfinance industry is expected to absorb the impact as disbursement, recoveries and liquidity patterns were influenced. The ratings are dependent on the foundation's aptness 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.

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Disclosure

Name of Rated Entity	Kashf Foundation PPTFC
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Jun-21),Methodology Microfinance Institution Rating(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Microfinance(Sep-20)
Rating Analysts	Timnat Thomas timnat.thomas@pacra.com +92-42-35869504

Issuer Profile

Profile Kashf Foundation is the first Microfinance Institution in the country. It is licensed by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies Rules, 2003. 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). Kashf operates at a national level with a network of over 325 branches. The Foundation extends small loans to underprivileged communities with a maturity of less than or equal to one year. The main product of the Foundation is the “Kashf Karobar Karza” loan which is provided to boost entrepreneurship in the country.

Ownership Overall control of the foundation vests with 11 members. Kashf has a proper succession plan in place which is expected to remain unchanged, going forward. Members of the Foundation are experienced professionals and have suitable skills to direct the Foundation in achieving its objectives.

Governance Kashf has a ten-member board of directors (BODs). Dr. Hafiz Ahmed Pasha is the Chairman of the board. 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. EY Ford Rhodes Chartered Accountants are the External Auditors of the foundation. They expressed an unqualified opinion on the financial statements for the year ended June’21. 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 Kashf operations are grouped under nine departments. Core lending activities are carried out at the branch level. The Foundation has a mix of diverse experience and skilled management. Ms Roshaneh Zafar, the CEO, is one of the founding members of Kashf having experience of over two decades. 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. 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.

Business Risk Pakistan Microfinance Industry (MFI) comprises 32 microfinance providers, including 21 microfinance institutions (MFIs). Active Borrowers exceeded pre-COVID figures as 7.6 million borrowers were achieved during 3MCY21, an increase of 4% compared to 3MCY20. Similarly, the GLP surpassed PKR 340 billion during 3MCY21, an increase of 10% compared to the GLP in Q1 last year. The growth in active borrowers and GLP continues to be driven by the MFB peer group as they managed to add over 614,000 clients and PKR 11 billion in GLP. NBMFC peer group also contributed to portfolio growth with an addition of PKR 4.7 billion, led by Kashf and NRSP. The PAR>30 days increased from 3.7% to 4.5% as the infection ratio for MFBs rose from 3.3% to 4% and for NBMFCs from 4.9% to 5.6%. Considering the market share of ~5% in terms of GLP of the whole industry, the foundation is considered as a relatively mid-tier player in the Microfinance sector. Despite the challenging environment, Kashf was enabled to earn an interest income of PKR 5,001mln in FY21 with a decline of PKR 150mln YoY basis (FY20: PKR 5,151mln). This decline is mainly due to a slight decrease in the disbursement of the portfolio in 2020-21 due to uncertain conditions due to COVID. Return on investment & bank deposits, clocked at PKR 633mln (FY20: PKR 626mln) whereas mark-up on micro-credit loans constitutes 87.7% of total interest income. Kashf’s earning assets constitute 93% of the total assets, grew by 7.5% to earn maximum returns from its asset base. In 2021 the profitability of the company significantly increased by 267% to PKR 769mln as compared to 82.5% in 2020 (PKR 210mln), reason for the increase in profitability is mainly due to a decrease in financial charges due to downward fluctuation in the policy rate. 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. 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 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 16,275mln as at end-Jun21 (FY20: PKR 13,830mln). The asset quality observed a witnessed decline in NPLs and clocked at PKR 604mln during FY21. The Foundation’s investment portfolio constituting 5.4% of the total earning assets. (FY20: 9.3%). There are no financial assets utilized for hedging in overall investments in FY21 (FY20: PKR 540mln). Any upward fluctuation in policy rates will increase the financing cost of the foundation as all local long term borrowing carries a floating interest rate. Kashf has the policy to hedge all foreign currency exposures, which is beneficial for the foundation, in the current environment. Kashf has mobilized mostly all funds from both local and foreign borrowers. Total debt of the foundation as of FY21 slightly increased by 2.7% to PKR 18,311mln (FY20: PKR 17,829mln). An upward movement in advances to borrowings ratio to 89% from 75% is due to enhancement in recent disbursements owing to soften lockdown as virus caseload drops. During FY21, with a downward movement in Kashf’s liquidity position. The Foundation’s liquid assets to borrowings ratio remained low at 39.9% as compared to 47% in FY20. In FY20 Kashf has increased the liquidity to Asset ratio up to 35% from 25% due to uncertain conditions in the country due to COVID. In FY 21 Kashf has intentionally brought down the liquidity to asset ratio close to the benchmark of 25%. 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 5,295mln as at FY21 (FY20: PKR 4,391mln).

Instrument Rating Considerations

About The Instrument Kashf Foundation issued a rated and secured, privately placed Term Finance Certificate (TFC) of PKR 2,000 mln. The tenor of the instrument is 4 years including a grace period of 1 year. The proceeds are being utilized to mobilize funds for micro-lending. Profit is being paid quarterly in arrears on the outstanding principal amount at the rate of 3 M KIBOR + 2.25%. The principal is being paid in 12 equal quarterly instalments of PKR 166.67 mln each which started from Dec-20.

Relative Seniority/Subordination Of Instrument The claims of the TFC holders will rank superior to the claims of ordinary shareholders.

Credit Enhancement The instrument is secured by hypothecation over all present and future current assets of the Company (excluding short term investment) along with a 25% margin. Additionally, Kashf has established a redemption reserve account, in exclusive favour of the Trustee for the benefit of the investors, in which an amount equivalent to one outstanding instalment is available throughout the life of the instrument from the issue date.



Kashf Foundation
Listed Public Limited

Jun-21	Jun-20	Jun-19
12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	16,379	13,830	14,212
2 Investments	1,369	3,656	3,210
3 Other Earning Assets	5,853	5,787	2,531
4 Non-Earning Assets	1,250	1,635	999
5 Non-Performing Finances-net	88	(317)	(75)
Total Assets	24,939	24,590	20,877
6 Deposits	-	-	-
7 Borrowings	18,476	19,154	15,769
8 Other Liabilities (Non-Interest Bearing)	857	883	734
Total Liabilities	19,333	20,038	16,502
Equity	5,296	4,518	4,328

B INCOME STATEMENT

1 Mark Up Earned	5,001	5,151	4,681
2 Mark Up Expensed	(2,022)	(2,641)	(1,722)
3 Non Mark Up Income	799	737	430
Total Income	3,778	3,247	3,389
4 Non-Mark Up Expenses	(2,522)	(2,578)	(2,127)
5 Provisions/Write offs/Reversals	(487)	(459)	(68)
Pre-Tax Profit	769	210	1,194
6 Taxes	-	-	-
Profit After Tax	769	210	1,194

C RATIO ANALYSIS

1 Performance

Net Mark Up Income / Avg. Assets	12.0%	11.0%	16.8%
Non-Mark Up Expenses / Total Income	66.7%	79.4%	62.8%
ROE	15.7%	4.7%	32.6%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	21.2%	18.4%	20.7%
Capital Adequacy Ratio	N/A	N/A	N/A

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	39.5%	51.0%	36.9%
(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

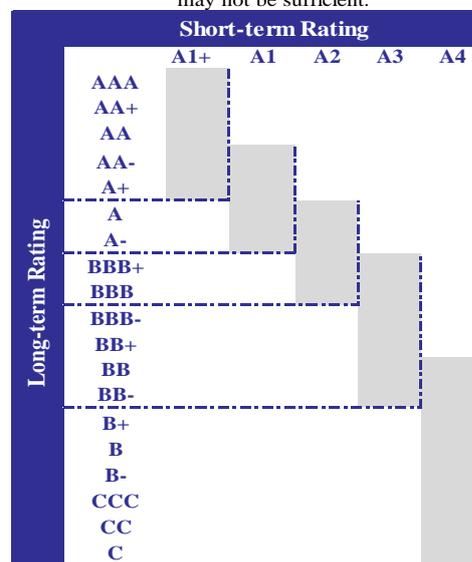
Non-Performing Advances / Gross Advances	3.6%	1.9%	0.4%
Non-Performing Finances-net / Equity	1.7%	-7.0%	-1.7%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. 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	High credit quality. 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	Good credit quality. 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+	Moderate risk. 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	High credit risk. 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	Very high credit risk. 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
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):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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Rating Team Statements

(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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (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.
- (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)

Independence & Conflict of interest

- (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
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (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)

Monitoring and review

- (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)

Proprietary Information

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets
Privately Placed Term Finance Certificate (PPTFC)	PKR 2,000mln	4 years	1) Pari Passu charge on current assets excluding investment Portfolio 2) Account agreement	2,000 units of Rs. 1,000,000 each	Current Assets	Pak Oman Investment Company Limited	PKR 2,666mln

Name of Issuer	Kashf Foundation
Issue Date	Sep 30, 2019
Maturity	Sep 30, 2023

Kashf Foundation | PPTFC

Due Date Principal	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate		Markup/Profit Payment	Installment Payable	Principal Outstanding
				Base	Spread			
PKR in mln								
27-Sep-19	2,000,000,000	-	27-Sep-19	0.00%	0.00%	-	-	1,800,000,000
30-Sep-19	2,000,000,000	-	30-Sep-19	13.85%	2.25%	2,381,918	2,381,918	2,000,000,000
30-Dec-19	2,000,000,000	-	30-Dec-19	13.84%	2.25%	80,229,589	80,229,589	2,000,000,000
30-Mar-20	2,000,000,000	-	30-Mar-20	13.55%	2.25%	78,783,562	78,783,562	2,000,000,000
30-Jun-20	2,000,000,000	-	30-Jun-20	11.26%	2.25%	68,105,205	68,105,205	2,000,000,000
30-Sep-20	2,000,000,000	-	30-Sep-20	7.26%	2.25%	47,940,822	47,940,822	2,000,000,000
30-Dec-20	2,000,000,000	166,666,667	30-Dec-20	7.25%	2.25%	47,369,863	214,036,530	1,833,333,333
30-Mar-21	1,833,333,333	166,666,667	30-Mar-21	7.30%	2.25%	43,171,233	209,837,900	1,666,666,667
30-Jun-21	1,666,666,667	166,666,667	30-Jun-21	7.58%	2.25%	41,294,977	207,961,644	1,500,000,000
30-Sep-21	1,500,000,000	166,666,667	30-Sep-21	7.45%	2.25%	36,673,973	203,340,639	1,333,333,333
30-Dec-21	1,333,333,333	166,666,667	30-Dec-21	7.45%	2.25%	32,244,749	198,911,416	1,166,666,667
30-Mar-22	1,166,666,667	166,666,667	30-Mar-22	7.45%	2.25%	27,904,110	194,570,776	1,000,000,000
30-Jun-22	1,000,000,000	166,666,667	30-Jun-22	7.45%	2.25%	24,449,315	191,115,982	833,333,333
30-Sep-22	833,333,333	166,666,667	30-Sep-22	7.45%	2.25%	20,374,429	187,041,096	666,666,667
30-Dec-22	666,666,667	166,666,667	30-Dec-22	7.45%	2.25%	16,122,374	182,789,041	500,000,000
30-Mar-23	500,000,000	166,666,667	30-Mar-23	7.45%	2.25%	11,958,904	178,625,571	333,333,333
30-Jun-23	333,333,333	166,666,667	30-Jun-23	7.45%	2.25%	8,149,772	174,816,438	166,666,667
30-Sep-23	166,666,667	166,666,667	30-Sep-23	7.45%	2.25%	4,074,886	170,741,553	-
		2,000,000,000				591,229,680	2,591,229,680	

* KIBOR rates are as on 30th June 2021 (date of last repayment of markup), and assumed to be constant.