

Kashf Microfinance Bank Limited

Chief Executive Officer: Mr. Mudassar Aqil

May 02, 2013

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Category	Latest	Previous
Entity	-	BBB-/A-3 <i>Apr 30, '12</i>
Outlook		N/A*

**Under Rating Watch – Developing Status*

Rating Rationale

During FY12, KMBL made tangible progress in the capital enhancement plan. Existing shareholders and new investors were issued right shares during 3QFY12 which led to an equity injection of Rs. 200.0m. Meanwhile, FINCA is expected to inject equity to the tune of Rs. 824.7 by end-April, 13 and acquire shares from some of the existing shareholders for an 82.8% stake in the bank. In view of this, a share subscription agreement was signed in March, 13. Following the equity injection by FINCA, KMBL would achieve compliance with the regulatory minimum capital requirement of Rs. 1.0b. Moreover, achieving optimum level of portfolio size to cover operational cost of the bank is also dependent on equity injection by FINCA. Given that FINCA carries more than 25 years of global experience in the field of microfinance, KMBL is likely to benefit from the said transaction.

In 2012, KMBL's focus remained on optimal utilization of existing branch network to expand its lending and deposit mobilization activities. Ten sales centres were set up during FY12 while 5 permanent booths have also been added during the on-going year. In line with the industry trend, sizeable growth was achieved during FY12 in the deposit base which was largely channelized into lending avenues. Three new deposit products were introduced during FY12 while the bank has also recently introduced employee payroll services in order to tap institutional deposits. Moreover, a dedicated resource has been inducted to oversee the liability function. Deposit base is widespread among the branch network; concentration indicators have room for improvement.

Lending product suite was also expanded with the introduction of gold backed financing and the recently launched agriculture lending. Kashf Karobari Karza continues to be the premier product for the bank while growth in the lending portfolio is largely manifested in the gold backed products in 2012. KMBL's model of decentralized lending has so far delivered satisfactory results and asset quality indicators have remained intact. Going forward, enterprise lending is planned with a maximum amount of loan size of Rs. 500,000 (currently Rs. 150,000). This may require skill set of front-end staff to be enhanced.

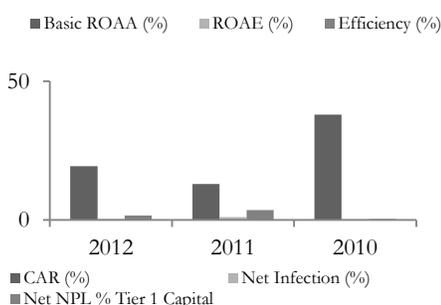
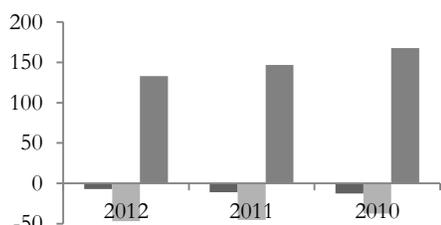
Following considerable turnover in 2011, the management team of KMBL has exhibited stability in 2012 and the on-going year. Moreover, credit risk management function is well established though monitoring of other risks faced by the bank needs to be strengthened. At the senior management level, position of Chief Risk Officer and Chief Financial Officer is vacant since 2011.

Given growth in the lending portfolio and largely contained cost of deposits, net interest income of the bank augmented by around 27% during FY12. In view of high operating expenses, the bank however continues to report operating losses; quantum of losses has been curtailed to some extent in recent months.

Following the Rs. 200.0m equity injection, capital base of the bank improved to Rs. 271.5m at end-Dec, 12 (FY11: Rs. 204.8m). This also led to improvement in CAR which stood at 19.4% at end-Dec, 12 (FY11: 12.8%). Given growth in advances portfolio and losses during 1QFY13, CAR of the bank has reduced to 15.6% at end-Mar, 13 against the regulatory requirement of 15%. Planned equity injection by new sponsor is likely to strengthen the capitalization level of the bank and provide room for growth.

Overview of the Institution

KMBL commenced its operations in October 2008 and is licensed to operate nationwide. The branch network of KMBL has remained unchanged at 31 branches. Branches of KMBL are mainly located in Punjab with a network of 24 branches while three branches are operational in Khyber Pakhtunkhwa and four in Sindh. JCR-VIS



	2012	2011	2010
Net Financings (Rs. in b)	1.14	0.69	0.43
Deposits (Rs.in b)	1.73	1.14	0.77
Deposit Cost (%)	8.9	7.8	5.4
Profit / (Loss) (Rs.in m)	(133.5)	(145.6)	(174.2)
Equity (Rs. in b)	0.27	0.20	0.35
CAR (%)	19.4	12.8	38.0
Liquid Assets % Deposits & Borrowings	32.7	33.6	55.1
Net Infection (%)	0.38	1.03	0.23