

## RATING REPORT

### Security Investment Bank Limited

**REPORT DATE:**

September 01, 2021

**RATING ANALYSTS:**

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Rating Category	Initial Rating	
	Long-term	Short-term
<b>Entity</b>	A-	A-2
<b>Rating Outlook</b>	Stable	
<b>Outlook Date</b>	September 01, 2021	

#### COMPANY INFORMATION

<b>Incorporated in 1991</b>	<b>External auditors:</b> Baker Tilly Mehmood Idrees Qamar Chartered Accountants
<b>Non-Banking Finance Company</b>	<b>Chairman of the Board:</b> Haji Jan Muhammad
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Zafar M. Shaikh
Key group of individuals – 59.6%	
Public individuals – 26.6%	

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Non-Bank Financial Companies (March 2020)

<https://docs.vis.com.pk/docs/NBFCs202003.pdf>

## Security Investment Bank Limited

OVERVIEW OF  
THE  
INSTITUTION

## RATING RATIONALE

In 1991, Security Investment Bank Limited (SIBL) was incorporated as a public limited company under the Companies Ordinance, 1984. The shares of SIBL are listed on the Pakistan Stock Exchange (PSX).

**Profile of CEO**

Mr. Zafar M. Shaikh is a renowned professional having a career spanning over 3 decades in the international and domestic banking sector with primary emphasis on treasury and fund management covering both conventional and Islamic banking. Previously, he has served for 6 years as Director General Central Directorate of National Savings with additional charge of DG Debt in Ministry of Finance. He has also been Additional Director General, Debt Management, Ministry of Finance, for 2 years. He also served as Advisor on Forex and Debt Management / Head of Treasury to the Governor State Bank of Pakistan for 4 years. Before joining

Set up in 1991, Security Investment Bank Limited (SIBL) operates as a Non-Banking Finance Company providing both funded and non-funded facilities and advisory services to clients.

**Key rating drivers****Sound profile of sponsors**

- The majority shareholders with a stake of ~60% are members of ARY family, which owns and operates the ARY Group (ARY).
- Founded in 1972 by Late Haji Abdul Razzak Yaqoob, ARY is a diversified group with interests in several sectors including media (ARY Digital, Bol), apparel (ARY Jewelry), retail (ARY Cash & Carry) and real estate. ARY was originally owned by four brothers, Late Haji Abdul Razzak Yaqoob, Haji Mohammad Iqbal, Haji Jan Mohammad and Haji Abdul Rauf.

**Adequate Governance & Control Infrastructure**

- **Board Governance:** Overall Board composition complies with best practices, with 3 out of 8 members of the Board being independent. In addition, the Board also comprises a female director, in compliance with SECP's Code of Corporate Governance 2019 regulation. In line with best practices, the independent directors chair board level committees namely Board Audit Committee (BAC), Board Human Resources and Remuneration Committee (BHRRC) and Board Risk Management Committee (BRMC).
- **Information Technology:** SIBL has an in-house Oracle based enterprise resource planning (ERP) solution. The ERP comprises five modules namely general ledger, human resources (HR) payroll, demand finance, system maintenance and car finance. The company's Disaster Recovery (DR) site is located in a separate facility, albeit in the same vicinity as the head office. For DR, the company has policies in place including a backup plan, depending on severity of disaster. Backup frequency has been set at daily and weekly depending on data type; there is no real time data backup facility in place.
- **Internal Control:** Subsequent to the resignation of the last Head of Internal Audit in September 2020, a new resource has been appointed for the position in 2021. A formal Code of Conduct in place with all the supporting policies and procedures. Risk management function is being managed by the compliance department in the company.

**Asset mix witnessed a shift towards investments while financing operations have shrunk**

- SIBL's asset base depicted contraction of 8% during the period Jan'20-Mar'21, which was mainly a result of a drop in the entity's leverage.
- Simultaneously, overall proportionate share of investments in total assets has increased to 61% as at Mar'21. (Dec'20: 60%; Dec'19: 40%, Dec'18: 14%).

Government of Pakistan, Mr. Zafar has also served various financial institutions in Dubai, London and New York for almost 18 years in senior capacities/treasurer of banks.

- On the other hand, in line with management’s envisaged projections, financing operations have been reduced, with their share in the asset mix falling from 30% as of Dec’19 to 8% as of Mar’21.
- Operating assets in the table below include investment property acquired in settlement of debt by counterparties, with a value of Rs. 122m. These include 3 offices in on the 5<sup>th</sup> floor of Madina City Mall, Sddar Karachi, having a total covered area of 3,756 sq.feet. The property generates meagre rental income, translating in rental yield of 0.5%.

	Dec’18	Dec’19	Dec’20	Mar’21
<b>Operating Assets</b>	<b>5%</b>	<b>19%</b>	<b>22%</b>	<b>21%</b>
<b>Financing</b>	<b>69%</b>	<b>30%</b>	<b>8%</b>	<b>8%</b>
<b>Investments</b>	<b>14%</b>	<b>40%</b>	<b>60%</b>	<b>61%</b>
<b>Cash</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>
<b>Others</b>	<b>11%</b>	<b>10%</b>	<b>10%</b>	<b>9%</b>
<b>Total Assets</b>	<b>818.9</b>	<b>839.0</b>	<b>735.3</b>	<b>772.6</b>

### Financing

- SIB’s overall financing portfolio witnessed a sharp decline in 2019 & 2020, as financing to associated companies was stopped. This was due the non-compliance of NBFC’ regulations amendment in 2016, which states that an NBFC shall not provide financing to its major shareholders. The outstanding financings were settled by way of acquiring a property (Rs. 150m), as a settlement of subordinated debt from sponsor (Rs. 180m) and remaining was cash.
- As of Mar’21, SIBL’s outstanding financings pertain to a total of 8 counterparties wherein 1 is demand finance and remaining 7 are auto financing. As per management, these balances will be settled in accordance with the repayment period agreed with the counterparty.
- Going forward, the management has plans to grow its financing portfolio mainly towards Real estate, Corporate and Consumer Financing segments

Financing (Rs. Mn.)	Dec’18	Dec’19	Dec’20	Mar’21
Long Term Financing	4.5	7.6	5.0	5.4
Short Term Financing	560.0	242.7	54.0	55.0
<b>Net Total Financing</b>	<b>564.5</b>	<b>252.2</b>	<b>59.0</b>	<b>60.4</b>

### Investments

- Overall investments of SIB witnessed a consistent increase since 2017 as the funds of the company moved from financing to investment portfolio, stands at Rs. 429m as at Mar’21.
- At 61% of the asset, the investment portfolio is sizable and was largely (~85%) composed of equity securities, implying significant exposure to market risk. Even though much of the security holdings comprise blue chip scrips, exposure to a single cement company was in excess of a third of the Company’s equity.
- Rest of the investments placed in short term avenues including T-bills, TFC’s and Listed equities.

- Recently, the company has developed an approved investment policy wherein the equity shares portfolio should not exceed 30% of the company's equity with a single scrip should not exceed 10% of the company's equity at any given time. Further, investment in Government Securities should be maintained at 25% of the total equity.

Investments (Rs. Mn.)	Dec'18	Dec'19	Dec'20	Mar'21
Long Term	50	46	46	46
Short Term	113	334	438	475
T-Bills	25	25	53	53
TFCs	6	6	6	6
Equities	63	288	392	429
<b>Total Investments</b>	<b>113</b>	<b>334</b>	<b>438</b>	<b>475</b>

#### Adequate capitalization & liquidity

- The company has zero debt since 2020 while overall leverage is also at minimal level, given that there are no long term liabilities and current liabilities are limited.
- In view of the capitalization and significant holdings of equities and cash & cash equivalents, liquidity & capitalization profile of the Company is considered adequate.
- The Company's net equity at Rs. 754m as at Mar'21 is compliant with SECP requirement for deposit taking NBFCs.

#### With a smaller financing portfolio, topline depicted a decline. As a result, efficiency ratio deteriorated

- Return on financing continued to decline since 2018 parallel to a drop in financing portfolio of the company.
- While return on securities and gain on sale of investments provided some cushion to overall income.
- Efficiency indicator has consistently deteriorated since 2018 with the decrease of recurring income.
- Profit after tax (PAT) of the company increased to Rs. 90.2m in 2020 from 50.7m an year earlier as a result of booking Unrealized gain of Rs. 81m in 2020. (Unrealized gain 2019: Rs. 13.3m, Unrealized gain 2018 & before: Nil).

<b>P&amp;L Extract (Rs. Mn.)</b>	<b>Dec'18</b>	<b>Dec'19</b>	<b>Dec'20</b>	<b>Mar'21</b>
<b>Total Income</b>	<b>73.3</b>	<b>73.2</b>	<b>41.3</b>	<b>6.6</b>
Return on financing	67.4	54.3	10.9	1.9
Return on securities	1.9	4.3	12.1	1.1
Gain on sale of investments	-	5.1	16.4	3.4
Profit on deposits	1.6	1.0	0.6	0.1
Other Income	2.5	8.6	1.3	0.2
<b>Admin expense</b>	<b>(30.7)</b>	<b>(31.8)</b>	<b>(32.1)</b>	<b>(7.4)</b>
<b>Unrealized gain/loss</b>	<b>-</b>	<b>13.3</b>	<b>81.0</b>	<b>38.5</b>
<b>Profit before tax</b>	<b>34.0</b>	<b>50.7</b>	<b>90.2</b>	<b>37.8</b>
<b>Profit after tax</b>	<b>17.2</b>	<b>39.5</b>	<b>77.3</b>	<b>37.8</b>

**Security Investment Bank Limited**
**Appendix I**
**FINANCIAL SUMMARY**
*(amounts in PKR 000's)*

<b><u>BALANCE SHEET</u></b>	<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>31-Dec-20</b>	<b>31-Mar-21</b>
Long Term Investments	50.0	45.9	45.9	45.9
Short Term Investments	62.7	288.1	392.0	429.0
Short Term Financing	560.0	242.7	54.0	55.0
Cash & Bank Balances	9.5	8.0	7.3	5.0
<b>Total Assets</b>	<b>818.9</b>	<b>839.0</b>	<b>735.3</b>	<b>772.6</b>
Borrowings	182.8	180.0	-	-
Deposits	-	-	-	-
Paid Up Capital	514.3	514.3	514.3	514.3
Net Worth	598.9	638.7	716.0	753.8
<b><u>INCOME STATEMENT</u></b>	<b>31-Dec-19</b>	<b>31-Dec-20</b>	<b>31-Mar-20</b>	<b>31-Mar-21</b>
Net Mark-up Income	54.3	10.9	7.6	1.9
Non-Markup Income	18.9	30.4	6.7	4.8
Operating Expenses	(31.8)	(32.1)	(7.5)	(7.4)
Profit Before Tax	41.4	9.2	6.8	(0.7)
Profit After Tax	39.5	77.3	(32.0)	37.8
<b><u>RATIO ANALYSIS</u></b>	<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>31-Dec-20</b>	<b>31-Mar-21</b>
Efficiency (%)	41.8%	43.5%	77.7%	111.0%
ROAA (%)	2.3%	4.8%	9.8%	5.0%
ROAE (%)	2.9%	6.4%	11.4%	5.1%
Gearing (x)	30.5%	28.2%	0.0%	0.0%
Debt Leverage (x)	36.7%	31.4%	2.7%	2.5%
Liquid Assets % Liabilities	32.8%	147.8%	2071.5%	2304.9%

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix 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](http://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](http://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](http://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				Appendix III	
<b>Name of Rated Entity</b>	Security Investment Bank Limited				
<b>Sector</b>	Non-Banking Finance Company				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	01-09-2021	A-	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Mr. Zafar M Sheikh	CEO	August 12, 2021		
	Mr. Shakeel Ahmed	CFO	June 30, 2021		