Saudi Pak Industrial and Agricultural Investment Company Limited

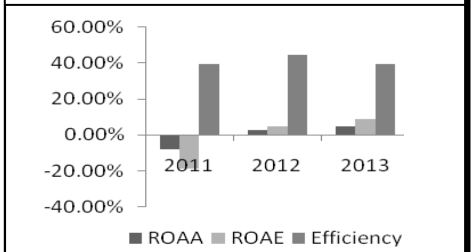
Chairman: Mr. Mohammed W. Al-Harby;
GM/Chief Executive: Mr. Kamal Uddin Khan

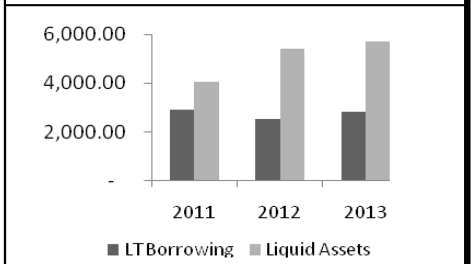
July 1, 2014

Analysts: Maimoon Rasheed
Syed Adil Hussain

Category	Latest	Previous
Entity	AA/A-1+ *Jun 30,'14*	AA/A-1+ *Jun 29,'13*
Outlook	Positive *Jun 30,'14*	Positive *Jun 29,'13*

Key Financial Trends





	2011	2012	2013
Net Advances (Rs. in b)	5.24	4.96	3.95
Borrowings (Rs.in b)	6.14	6.61	5.09
Cost of Funds (%)	13.2	10.2	7.5
Profit / (Loss) (Rs.in b)	(1.47)	0.38	0.76
Equity (Rs. in b)	6.10	6.54	7.36
CAR (%)	38.2	50.8	59.6
Liquid Assets % Deposits & Borrowings	62	80	110
Net Infection (%)	13.5	10.5	7.5

Rating Rationale

Ratings assigned to Saudi Pak Industrial and Agricultural Company Limited (Saudi Pak) draw comfort from the presence of its two sovereign sponsors, Government of Pakistan (GoP) and Kingdom of Saudi Arabia (KSA). KSA has outstanding ratings of 'AA-/A1+' with a Positive outlook from international credit rating agency.

In recent years, the management's focus remained on recoveries of outstanding loans while maintaining a conservative stance on building the loan book. Contraction in advances portfolio was witnessed on account of lower loan disbursements and higher recoveries reported in FY13. The management, however, intends to expand loan portfolio from FY14 onwards primarily through selective participation in project financing and private equity deals. The company made fresh disbursements amounting to Rs. 600m (1Q13: Rs. 87m) during 1Q14.

The management continued its efforts to pursue recoveries against non-performing loans (NPLs) while enhancing provisioning coverage. Non-performing portfolio (including non-performing leases) declined to Rs. 2.6b by end 1QFY14 (FY13: 2.67b, FY12: 2.87b). Provisioning coverage was higher at 92% (FY13: 89%, FY12: 82%). Going forward, the management faces major challenges in recoveries as rest of the NPLs constitute relatively chronic and difficult cases; majority of which are under litigation and/or comprise syndicate loans. However, as the management has taken most of provisioning, the impact on profitability will be limited. Meanwhile, concentration in the lending portfolio has increased as the ten largest exposures constituted around 48% (end-FY12: 41%) of gross advances.

With higher internal liquidity generation, the management made concerted efforts to shed high cost borrowings during FY13. The company's liquidity profile improved with considerably higher liquid asset (adjusted for repo borrowings) as a proportion of total deposits & borrowings. Going forward, surplus liquidity generated is planned to be channelized toward high quality credits.

The company's strategy remained on liquidating certain non-earning investments while maintaining exposure in securities offering liquidity and capital gains. Government securities portfolio represented 50% of the total investments. Investment in government instruments primarily comprises T-bills; short-term nature of which limits interest rate risk. Exposure in listed equities stood at 13% of tier-1 capital at end-FY13; the company manages the associated risk by investing in liquid, dividend yielding stocks. Market risk related to trading portfolio is managed by strictly adhering to the pre-determined limits. Investment in TFCs declined during the year. The provision coverage against infected TFCs portfolio of Rs. 679m enhanced to 50% (end-FY12: 22%) by end-1Q14.

With decline in interest rates, return on mark-up bearing assets reduced during FY13. However, spreads witnessed improvement on the back of lower cost of funds, an outcome of extensive re-profiling of deposits and borrowings. Non markup income declined primarily on account of lower capital gains realized during FY13. Net Profit, however, showed improvement on the back of better efficiency, lower provisioning expense and recognition of deferred tax asset. Retention of profit helped in expanding the equity base, which along with decline in risk weighted assets led to higher capital adequacy ratio.

The company faces additional challenges as it continues to face staff turnover issues in the early cadres along with major gaps in skill sets as highlighted by a consultant. Plugging of gaps and stability in the core management team is critical in achieving the long term goals of the organization.

Overview of the Institution

The shareholding of Saudi Pak is divided equally between the two sponsors. The board comprises three nominees from each sponsor; including the Chairman; however, currently one position is vacant. The head office of the company is located in Islamabad while regional offices are located in Lahore and Karachi. The financial statements of the company for FY13 were audited by M/s KPMG Taseer Hadi & Co., Chartered Accountant JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: ENTITY		
02-Jul-14	AA	Positive	A-1+	Reaffirmed
29-Jun-13	AA	Positive	A-1+	Maintained
29-Jun-12	AA	Stable	A-1+	Downgrade
28-Jun-10	AA+	Stable	A-1+	Reaffirmed