RATING REPORT

Saudi Pak Industrial and Agricultural Investment Company Limited

REPORT DATE:
June 10, 2015

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*Jun 9,'15*		*Dec 1, '14*	

COMPANY INFORMATION

Incorporated in 1981	**External auditors:** KPMG Taseer Hadi & Co
Unlisted Public Company	**Chairman of the Board**: Mr. Mohammed W. Al-Harby
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Kamal Uddin Khan
Government of Pakistan – 50%	
Kingdom of Saudi Arabia – 50%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Government Supported Entities *http://jcrvis.com.pk/images/gse.pdf*

Saudi Pak Industrial and Agricultural Investment Company Limited

OVERVIEW OF THE INSTITUTION

Saudi Pak was incorporated in 1981 as a private limited company and later converted into an unlisted public limited company. The head office of the company is located in Islamabad while representative offices are situated in Lahore and Karachi.

RATING RATIONALE

Ratings assigned to Saudi Pak Industrial and Agricultural Company Limited (Saudi Pak) take into account the shareholders' profile, with two sovereigns, Government of Pakistan (GoP) and Kingdom of Saudi Arabia (KSA), having an equal stake in the company under the terms of a joint venture agreement. KSA has outstanding ratings of 'AA-/A1+' from an international credit rating agency.

Ratings also recognize overall improvement in the company's financial risk profile on account of three years long strategy of balance sheet restructuring. Various steps taken by the management over this period have translated into improved operating results and enhanced financial flexibility. In recent years, management team of Saudi Pak has depicted stability. With growth-oriented strategy, the company would require strengthening of second line of management to fill skill gaps.

In line with the business plan, the management enhanced its focus on business expansion during the outgoing year. Given the thin spreads in lending to top tier corporate, the company's risk appetite remains moderate, with disbursements mainly targeted towards mid tier companies. With recoveries and provisions taken over time, net infection has diluted to under 1% of the portfolio.

As a secondary market borrower, the company is primarily reliant on funding from other financial institutions which are time based liabilities. With almost 47% of assets financed by equity and advances comprising 25.7% of total assets, the company has a fairly liquid balance sheet. Liquid assets (adjusted for repo) represented 112% (FY13: 110%) of deposits & borrowings (adjusted for repo).

Liquid assets carried on balance sheet primarily include the portfolio of marketable securities. Major portion of the investment portfolio has been deployed in government securities; credit risk arising from the same is considered minimal in the local context. In line with market trend, the company enhanced its holding of PIBs significantly in FY14. Moreover, equities portfolio has also been rationalized over times and now comprises dividend yielding and highly liquid stocks. Return on equity portfolio has remained higher than the benchmark index, supporting the bottom line.

Basic earnings of Saudi Pak increased to Rs. 531.3m (FY13: Rs. 382.6m) on account of higher markup bearing assets. Net reversal of provisioning against non-performing assets and realization of gain on government securities augmented the bottom line of the company. Resultantly, the company reported its highest operating profit during FY14.

With pricing of both loans and borrowings linked to market benchmark rates, the company's spreads are not likely to be meaningfully affected by the reduction in key policy rate. Moreover, leveraging is currently low and the company has locked in PIBs at higher rates. Impact of past credit losses have largely been absorbed with net non-earning assets amounting to Rs. 2.7b at end-FY14; future profitability is likely to remain a function of asset mix, size and quality. Non earning assets as a proportion of asset base stood at 24.5% at end-FY14 (FY13: 41.1%). These assets, though declining on a timeline basis, continue to place a drag on the company's performance, with return on equity recorded at 12% (FY13: 8.9%).

Saudi Pak Industrial and Agricultural Investment Company Limited

FINANCIAL SUMMARY			Appendix I *(amounts in PKR billions)*
BALANCE SHEET	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Total Investments	10.7	6.5	6.5
Net Advances	5.7	3.9	5.0
Total Assets	22.2	14.8	15.9
Borrowings	10.6	4.3	5.9
Deposits & other accounts	0.04	0.8	0.7
Subordinated Loans	-	-	-
Tier-1 Equity	8.6	7.4	6.5
Net Worth	10.4	9.0	8.2
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Mark-up Income	1.3	0.95	0.43
Net Provisioning / (Reversal)	(0.21)	0.15	0.21
Non-Markup Income	0.76	0.32	0.53
Operating Expenses	0.25	0.25	0.34
Profit/(Loss) Before Tax	1.4	0.43	0.41
Profit/(Loss) After Tax	1.2	0.76	0.38
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Gross Infection (%)	28.5	42.2	39.3
Provisioning Coverage (%)	94.6	89	81
Net Infection (%)	2.1	7.5	10.7
Cost of funds (%)	9.0	7.5	10.9
Net Non-Performing Assets to Tier-1 Capital (%)	32	44	72
Capital Adequacy Ratio (CAR) (%)	38.7	59.6	54.0
Markup Spreads (%)	2.6	2.2	0.3
Efficiency (%)	35	39	45
ROAA (%)	6.5	5.0	2.5
ROAE (%)	12.0	8.9	4.9
Liquid Assets to Deposits & Borrowings (%)	112	110	59

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

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

(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

'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

Name of Rated Entity	Saudi Pak Industrial and Agricultural Investment Company Limited
Sector	Development Finance Institution (DFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
09-Jun-15	AA+	A-1+	Stable	Reaffirmed
12-Dec-14	AA+	A-1+	Stable	Upgrade
02-July-14	AA	A-1+	Positive	Reaffirmed
29-Jun-13	AA	A-1+	Positive	Maintained
29-Jun-12	AA+	A-1+	Stable	Downgrade