Saudi Pak Industrial and Agricultural Investment Company Limited

REPORT DATE:
June 24, 2016

RATING ANALYSTS:
Waqas Munir, FRM
waqas.munir@jcrvis.com.pk

Maham Qasim
maham.qasim@jcrvis.com.pk

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 17,'16*		*Jun 9,'15*	

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 'A-/A-2' from an international credit rating agency.

Advances: 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. Despite growth in the lending portfolio, concentration has remained high as the ten largest exposures represented more than half of performing advances. High concentration in advances portfolio is a function of small size of the portfolio itself. Given adequate provisioning against non-performing loans, net infection was reported at 3.1% at end-1QFY16 (FY15: 10.7%; FY14: 2.1%). Advances portfolio is projected to increase by around 8% annually in the coming years.

Investments: Major portion of the investment portfolio has been deployed in government securities; the same is exposed to interest rate risk given high duration of the PIBs portfolio. Among listed equities, investment reflects dividend yielding and highly liquid stocks with major exposures pertaining to oil & gas, banking and fertilizer segments. Exposure in listed equities reflected 10% (FY14: 12%) of tier-1 equity at end-FY15.

Liquidity: As a secondary market borrower, the company is primarily reliant on funding from other financial institutions which are time based liabilities. More than three-forth of the borrowings are short term; various liquidity gap limits are monitored on an ongoing basis to managing the associated risk. Overall liquidity profile of the institution remained sound with liquid assets (adjusted for repo) representing 125% of total borrowings & deposits at end-1QFY16 (FY15: 109.2%; FY14: 112.0%)

Profitability: The improvement in core income did not translated onto the bottom line of the company on account of lower gain on sale of securities and provisioning expense against non performing loans and investment as against reversal in the preceding year. Resultantly, after tax profit was reported lower at Rs. 723.7m (FY14: Rs. 1.2b) during FY15. With pricing of both loans and borrowings linked to market benchmark rates, spreads of the institution are not likely to be materially affected by changes in key policy rate. Maturity high yielding long term government bonds is expected to negatively impact revenue streams, going forward. In view of this, management aims to increase its loan book to minimize the ensuing impact on profitability. Overall growth in balance sheet footing is expected to remain conservative in the coming years with focus on NPL recovery and further strengthening of internal control infrastructure.

Capitalization: Paid-up-capital of the company enhanced to Rs. 6.6b at end-1QFY16 (FY15: Rs. 6.6b; FY14: Rs. 6.0b) on account of issuance of bonus shares during FY15. Net NPLs (including TFCs) as a portion of Tier-1 capital, were reported higher at 11% (FY14: 6%) at end-FY15. Capital Adequacy Ratio (CAR) increased to 45.5% at end-FY15 (FY14: 38.7%) and provides ample room for growth

Management: During the period under review, various internal rotations were made in the senior management team. Baring the position of head of internal audit, overall senior management team has depicted stability. While improving on a timeline basis, remuneration levels continue to remain lower at Saudi Pak in comparison to industry standards.

Saudi Pak Industrial and Agricultural Investment Company Limited

FINANCIAL SUMMARY			Appendix II *(amounts in PKR millions)*
BALANCE SHEET	**MAR 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Total Investments	12,941	12,702	10,739
Net Advances	6,788	6,675	5,688
Total Assets	25,087	25,088	22,173
Borrowings	11,606	12,011	10,631
Deposits & other accounts	7.0	7.0	37.0
Subordinated Loans	-	-	-
Tier-1 Equity	9,563	9,380	8,586
Net Worth	12,022	11,742	10,391
INCOME STATEMENT	**MAR 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Net Mark-up Income	246	851	677
Net Provisioning / (Reversal)	132	97	(211)
Non-Markup Income	143	619	762
Operating Expenses	79	390	247
Profit/(Loss) Before Tax	178	983	1,402
Profit/(Loss) After Tax	166	724	1,159
RATIO ANALYSIS	**MAR 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Gross Infection (%)	26.5	32.1	28.5
Provisioning Coverage (%)	91	75	94.6
Net Infection (%)	3.2	10.7	2.1
Cost of funds (%)	-	7.6	9.0
Capital Adequacy Ratio (CAR) (%)	50.8	45.1	38.7
Markup Spreads (%)	-	3.0	2.6
Efficiency (%)	24.2	30.2	35
ROAA (%)	2.6	3.1	6.5
ROAE (%)	5.6	6.5	12.0
Liquid Assets to Deposits & Borrowings (%)	125	109	112

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix III

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 IV
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	
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.
Probability of Default	JCR-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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
17-Jun-16	AA+	A-1+	Stable	Reaffirmed
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