Saudi Pak Industrial and Agricultural Investment Company Limited

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*Jun 12,'18*		*Jun 19,'17*	

COMPANY INFORMATION	
Incorporated in 1981	**External auditors:** A.F. Ferguson& 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*

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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.

Profile of Chairman

The Board is chaired by Mr. Mohammad W. Al-Harby, a nominee of KSA; previously he served as General Manager Real Estate Development Fund, KSA.

Profile Of MD

The management team is headed by Mr. Kamal Uddin Khan. Mr. Khan's career spans over three decades in the banking sector. Mr. Khan holds a Master's degree in Computer Science and a diploma in Investment Banking and Corporate Finance from Kellogg School of Management, Northwestern University, USA.

RATING RATIONALE

Ratings assigned to Saudi Pak Industrial and Agricultural Company Limited (Saudi Pak) take into account its strong 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 thin spreads in lending to top tier corporate, the company's risk appetite remains moderate, with disbursements mainly targeted towards mid-tier companies. Owing to reduction in benchmark returns yield on investments plummeted, hence more funds were channelized towards lending portfolio. In line with higher disbursements to the tune of Rs.3.5b (FY16: Rs.3.0), the gross loan portfolio was reported marginally higher at end-FY17. Fresh disbursements were made to electronics, brokerage, sugar, textile and oil & gas segments; all advances outstanding pertained to the private sector. Concentration in the lending portfolio has remained high as the ten largest exposures represented more than half of performing advances. However, high concentration in lending portfolio is a function of small size of the portfolio itself. Sector wise concentration exhibited increase with largest exposures primarily pertaining to energy, oil and gas, textile and dairy & poultry at end-FY17. Asset quality indicators exhibited improvement on a timeline basis owing to reduction in the quantum of non-performing loans as a result of recovery/regularization of clients. Advances portfolio is projected to increase in the ongoing year; the Board has approved a disbursement target of Rs.6b for FY18. Given the advances portfolio mainly comprises second to third tier corporate clients, maintenance of asset quality amongst fresh disbursements is considered crucial in sustaining risk profile of the institution.

Investments: Major portion of the investment portfolio has been deployed in government securities primarily T-bills; the credit and interest risk emanating from the same is limited owing to shorter maturity of instruments. Among listed equities, investment pertains to dividend yielding and highly liquid stocks with major exposures in power, banking and fertilizer segments. During FY17, the limit on investment in listed equity was increased to 30% (FY16: 20%) of the institution's total equity. Exposure in listed equities accounted for 18.9% (FY16: 15.5%) of total equity at end-FY17.

Profitability: Despite lower average markup bearing assets, core income of the company improved on the back of higher dividend and rental income. DFI sector has faced a general decline in net markup and non-markup income owing to prevalent constant benchmark rates and lackluster stock market performance; however Saudi Pak's pre-tax profitability was largely less affected than the peer group. Going forward, the institution's net markup income is projected to augment in line with increased focus towards corporate lending portfolio. Yield on mark-up bearing assets declined in view of lower proportion of high yielding PIBs portfolio during FY17. Resultantly, spreads were recorded lower on a timeline basis. However, accounting for deferred tax, profit after tax was reported higher at Rs. 627.3 (FY16: 476.1m) during FY17. Since pricing of both loans and borrowings are linked to market benchmark rates, spreads of the institution are not likely to be materially affected by changes in key policy rate. With anticipation of increase in policy rate, the window to make sizeable capital gains on long-term government securities is largely lost; hence in view of this, management aims to increase its loan book to minimize the consequent impact on profitability. Therefore, per party and per group limits were enhanced to Rs. 1b (FY16: Rs. 750m) and Rs, 2b (FY16: Rs. 1.5b) respectively to augment advances portfolio by lending higher ticket loans to creditworthy clients with sound repayment history.

Liquidity & Capitalization: As a secondary market borrower, the company is primarily dependent on funding from other financial institutions; fund mobilization activity under COIs is currently limited. More than two-fifths of the borrowings are short term in nature. Owing to sale of long-term investments, asset liability mismatch previously evident in 1 to 6 months bucket was largely rectified. Overall liquidity profile of the institution, albeit declined, still remained adequate in line with presence of adequate liquid assets on the balance sheet. Tier-1 equity augmented on a timeline basis on the back of profit retention. Net NPLs (including TFCs) as a portion of Tier-1 capital, were reported lower during the outgoing year as an outcome of decline in NPLs and enhanced equity base. Capital Adequacy Ratio (CAR) remained strong at 44.5% (FY16: 45%) by end-FY17 providing considerable cushion for growth.

Management: During the period under review, the vacant positions of Head Portfolio Management, Head Corporate Finance and CFO were filled. Currently, there is no vacant position at the senior management level. 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

Annexure I

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**31-Dec-15**	**31-Dec-16**	**31-Dec-17**	**31-Mar-18**
Total Investments	12,702	11,349	9,468	4,289
Net Advances	6,675	8,256	8,458	8,308
Non-Current Assets	2,739	2,625	2,518	2,515
Other Assets	2,971	2,102	1,723	4,776
Total Assets	25,087	24,332	22,167	19,888
Borrowings	12,010	10,718	9,077	6,409
Deposits & other accounts	7	131	8	8
Other Liabilities	1,103	1,097	877	945
Tier-1 Equity	9,380	9,914	10,624	10,850
Net Worth	11,742	12,386	12,205	12,526
INCOME STATEMENT	**31-Dec-15**	**31-Dec-16**	**31-Dec-17**	**31-Mar-18**
Net Mark-up Income	851	834	743	139
Net Provisioning / (Reversal)	86	267	239	(103)
Non-Markup Income	554	725	717	109
Operating Expenses	336	329	362	85
Profit/(Loss) Before Tax	983	963	860	266
Profit/(Loss) After Tax	724	476	627	196
RATIO ANALYSIS	**31-Dec-15**	**31-Dec-16**	**31-Dec-17**	**31-Mar-18**
Gross Infection (%)	32.1	26.7	24.8	24.1
Provisioning Coverage (%)	74.6	79.1	82.0	82.9
Net Infection (%)	10.7	7.1	5.5	5.2
Cost of funds (%)	7.7	5.4	5.6	-
Capital Adequacy Ratio (CAR) (%)	43	45	45	-
Markup Spreads (%)	1.7	2	1.3	-
Efficiency (%)	30.2	31.7	31.8	41.2
ROAA (%)	3.1	1.9	2.7	3.7
ROAE (%)	8.1	5.0	6.1	7.3
Liquid Assets to Deposits & Borrowings (%)	109	102	88	68

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.
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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12-Jun-18	AA+	A-1+	Stable	Reaffirmed
19-Jun-17	AA+	A-1+	Stable	Reaffirmed
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