RATING REPORT

Saudi Pak Industrial and Agricultural Investment Company Limited

REPORT DATE:
June 11, 2019

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	*May 31,'19*		*Jun 12,'18*	

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)
VIS Entity Rating Criteria: Government Supported Entities *http://vis.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.

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.

Financial Snapshot

Net equity: 1QFY19: Rs. 12.8b; FY18: Rs. 12.6b; FY17: Rs. 12.2b

Net profit: 1QFY19: Rs. 95.6m; FY18: Rs. 408m; FY17: Rs. 627m

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: In the backdrop of prevalent economic conditions, the company has adopted a conservative approach in making disbursements against the set targets. Disbursements are mainly targeted towards mid-tier companies, providing higher spreads and sound collateral, as consistent with company's moderate risk appetite. Albeit disbursements made during the year stood higher at Rs. 4.7b (FY17: Rs.3.9b), the gross loan portfolio was reported lower at end-FY18. Fresh disbursements were steered towards textile, sugar and electronics segments; all advances outstanding pertained to the private sector. Concentration in the lending portfolio, though improved, has remained high as the ten largest exposures represented more than more than two-fifths 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 textile, power, electronics and sugar at end-FY18. Asset quality indicators deteriorated owing to increase in quantum of non-performing loans. A disbursement target of Rs. 6b is set for the ongoing year; the management has planned to stay conservative as per the directives of BOD. 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: Anticipating interest rate volatility, the company disposed-off its entire government securities portfolio, while net investment in TFCs increased by the end-FY18.Among listed equities, investment pertains to dividend yielding and highly liquid stocks with major exposure in power, banking, cement and fertilizer segments. During FY18, the limit on investment in listed equity was maintained at 30% (FY17: 30%) of the institution's total equity. Exposure in listed equities accounted for 14.2% (FY17: 18.9%) of total equity at end-FY18.

Profitability: On account of lower average markup bearing assets and reduced gain on sale of securities, profitability of the institution declined. The overall profitability indicators relatively remained suppressed during FY18 as compared to preceding year on account of divestment in government securities during 1QFY18 in line with anticipation of upsurge in market interest rates which could have resulted in mark to market losses in the investment portfolio. Therefore, as a result of redemption/maturity of high yielding PIBs, return on markup bearing assets declined during FY18 as compared to the preceding year. On the other hand, cost of funding underwent a notable increase on account of higher interest charge on debt facilities obtained against charge of receivables in line with general increase in cost of borrowing coupled with change in the borrowing mix whereby avenues entailing higher funding cost were availed during the outgoing year. Resultantly, spreads were recorded lower on a timeline basis. Accordingly, profit after tax was reported lower at Rs. 407.6m (FY17: 627.3m) during FY18. Going forward, the institution has started building its exposure in short-term PIBs and T-bills considering the yield curve has largely settled; further exposure in longer-term securities will be made once the yield curve flattens. 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.

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 long-term in nature. On account of sale of long-term investments, asset liability mismatch was largely rectified. Overall liquidity profile of the institution declined in line with reduction in liquid assets as a result of sale of government securities. 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 higher during the outgoing year as a result of increased incidence in NPLs. Capital Adequacy Ratio (CAR) remained strong at 47.1% (FY17: 44.5%) by end-FY18 providing considerable cushion for growth.

Management: 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-16	31-Dec-17	31-Dec-18	31-Mar-19
Total Investments	11,349	9,468	4,159	13,607
Net Advances	8,256	8,458	7,865	7,517
Lending to Financial Institutions	-	-	2,818	1,096
Non-Current Assets	2,625	2,518	3,112	3,081
Other Assets	2,102	1,723	1,237	1,843
Total Assets	24,332	22,167	19,191	27,143
Borrowings	10,718	9,077	5,771	13,712
Deposits & other accounts	131	8	8	8
Other Liabilities	1,097	877	763	641
Tier-1 Equity	9,921	10,631	10,810	10,923
Net Worth	12,386	12,205	12,649	12,783

INCOME STATEMENT	31-Dec-16	31-Dec-17	31-Dec-18	31-Mar-19
Net Mark-up Income	834	743	603	225
Net Provisioning / (Reversal)	267	239	(77)	58
Non-Markup Income	725	717	446	99
Operating Expenses	329	362	428	99
Profit/(Loss) Before Tax	963	860	698	167
Profit/(Loss) After Tax	476	627	408	96

RATIO ANALYSIS	31-Dec-16	31-Dec-17	31-Dec-18	31-Mar-19
Gross Infection (%)	26.8	24.6	31.0	31.1
Provisioning Coverage (%)	79.1	82.0	69.6	72.7
Net Infection (%)	7.1	5.5	12.1	11.0
Cost of funds (%)	5.4	5.6	6.8	-
Capital Adequacy Ratio (CAR) (%)	45	45	47.1	-
Markup Spreads (%)	2	1.3	0.1	-
Efficiency (%)	31.7	31.8	45.9	29.2
ROAA (%)	1.9	2.7	2.0	1.7
ROAE (%)	5.0	6.1	3.8	3.5
Liquid Assets to Deposits & Borrowings (%)	102	88	98	101

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	31-May-19	AA+	A-1+	Stable	Reaffirmed
	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
Instrument Structure	N/A				
Statement by the Rating Team	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	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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