

## RATING REPORT

### Saudi Pak Industrial and Agricultural Investment Company Limited

**REPORT DATE:**

June 09, 2020

**RATING ANALYSTS:**

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RATING DETAILS	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Rating Category				
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	June 09, '20		May 31, '19	

#### COMPANY INFORMATION

<b>Incorporated in 1981</b>	<b>External auditors:</b> A.F. Ferguson & Co. – Chartered Accountants
<b>Unlisted Public Company</b>	<b>Chairman of the Board:</b> Mr. Sultan M. Hasan Abdulrauf
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> 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. Sultan M. Hasan Abdulrauf, a nominee of KSA; previously he served as Chief Investment Officer of Saudi Research and Marketing Group and Head of Corporate Director Investment SEDCO Holding, 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: 1QFY20: Rs. 12.8b; FY19: Rs. 13.0b; FY18: Rs. 12.6b  
 Net profit: 1QFY20: Rs. 85.4m; FY19: Rs. 267.1m; FY18: Rs. 407.5m

## RATING RATIONALE

The 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.

**Weakened asset quality despite a conservative lending approach:** In view of challenging economic conditions, a conservative approach was adopted in terms of disbursement during FY19. Albeit lower disbursements of Rs. 4.0b (FY18: Rs. 4.7b) against the target of Rs. 6b, the gross loan portfolio stood slightly higher by end-FY19. Around 60% disbursements were made to new clients. Both tier-I and tier-II customers were tapped, based on the defined security structure that meet Saudi Pak's risk reward equilibrium.

Disbursements were mainly directed towards textile, power, gas, electronics & electrical appliances, and sugar sectors. The concentration of top-10 exposures in gross advances portfolio remained high at 54.5% (FY18: 55.5%) at end-FY19. High concentration in lending portfolio is a function of small size of the portfolio itself. Asset quality indicators deteriorated mainly on account of fresh infection in a client related to the food sector, resulting in higher gross and net infection of 40.2% (FY18: 31.0%) and 23.2% (FY18: 12.0%) respectively, by end-FY19. Exposure is fully secured against mortgage properties worth Rs 3.0b. Infection levels are expected to remain largely at the current level during FY20, mainly on account of regulatory relief related to COVID-19 pandemic.

The disbursement target for FY20 is set at Rs. 4.5b. Going forward, the management plans to focus on power, fertilizer, infrastructure, export-based meat processing, and dairy sectors. Maintenance of asset quality amongst fresh disbursements is considered important in sustaining risk profile of the institution.

**Enhanced investment in government securities:** Saudi Pak enhanced its investment portfolio to Rs. 23.9b (FY18: Rs. 4.2b) by end-FY19, mainly by building fresh exposure in Government Securities mainly Pakistan Investment Bonds (PIBs). The investment strategy of buying PIBs was focused on buying floating rate PIBs which accounted for around three-fourth of overall PIBs portfolio at end-FY19. Major exposure was taken in long-term PIBs with maturity of 10 years or above. Equity market investments in both listed and un-listed companies stood higher at Rs. 2.6b (FY18: Rs. 2.3b) at end-FY19. Exposure in listed equities accounted for 15.8% (FY18: 14.2%) of total equity at end-FY19, well-below the approved limit of 30%. Among listed equities, investment reflects mainly dividend yielding and highly liquid stocks. Major exposures pertained to power generation & distribution, cement, fertilizer, commercial banks, and oil & gas marketing sectors. Net investment in TFCs increased to Rs. 2.3b (FY18: Rs. 1.3b) on the back of fresh exposure in debt instruments of an Independent Power Producer.

**Pressure on mark-up spreads and profitability:** Markup income was recorded higher at Rs. 2.3b (FY18: Rs. 1.0b) during FY19, driven largely by significant increase in income from portfolio of government securities. Despite largely stagnant portfolio size, income from advances portfolio also increased to Rs. 883.6m (FY18: Rs. 701m) on account of higher markup rates. Cost of funding increased to 10.7% (FY18: Rs. 6.8%) as a result of higher interest rate and change in the borrowing mix. Return on markup bearing assets increased at a slower rate to 11.3% (FY18: 8.4%), which led to reduced markup spreads 0.6% (FY18: 1.6%) during FY19. Given declining interest rate scenario, markup spreads are projected to increase to 1.75%-2.0% during FY20, mainly on the back of higher net return expected on fixed rate PIBs portfolio. Moreover, net spreads on floating-rate PIBs are also expected to contribute positively towards the overall mark-up spreads during the ongoing year as the same is re-priced with a 6-months lag while repo borrowings is re-priced more frequently.

Core earnings of Saudi Pak increased to Rs. 699.5m (FY18: Rs. 503.9m) during FY19, mainly on

account of higher return on investment portfolio as well as increase in dividend and rental income. However, with net provisions of Rs. 328.5m compared to net reversal of Rs. 77.2m in the corresponding period, the pre-tax profit was recorded lower at Rs. 404.9m (FY18: Rs. 698.5m). Total Comprehensive Income was recorded higher at Rs. 684.7m during FY19 (FY18: 669.2m). As of April 30, 2020, Saudi Pak has reasonable cushion available in terms of surplus on its equity portfolio. Accounting for taxation, net profit decreased to Rs. 267.1m (FY18: Rs. 407.6m) during FY19. Net profit stood slightly lower at Rs. 85.4m (1QFY19: Rs. 95.6m) during 1QFY20.

**Significant asset liability mismatch; declining liquidity indicators:** As a secondary market borrower, the company is primarily dependent on funding from other financial institutions. Commercial borrowings mobilized through repurchase borrowing agreements to build portfolio of government securities amounted to Rs. 15.9b (FY18: nil) at end-FY19. Other sources in overall funding mix included borrowings from borrowings from SBP under refinance scheme (LTFE), and borrowings obtained against charge on book debts/receivables. In line with the increased funding requirements, deposit base also increased to Rs. 912m (FY18: 7.5m) by end-1QFY20. Given short-term borrowings to finance long-term PIBs, significant asset liability mismatch has emanated. According to the management, PIBs investment portfolio comprises of liquid securities which are readily saleable. Effective management monitoring is done to deal with any mismatch on an ongoing basis to manage overall associated risk.

Overall liquidity profile of the institution weakened with the decline in liquid assets (adjusted for saleable PIBs repo) as a percentage of total borrowings & deposits to 25.4% (FY18: 58.3%) by end-FY19. Tier-1 equity remained stagnant at Rs. 10.8b (FY18: Rs. 10.8b) on account of dividend payment of Rs. 330m during FY19. Net NPLs (including TFCs) as a portion of Tier-1 capital were reported higher at 17.4% (FY18: 9.4%) due to higher incidence in infection during the year. Capital Adequacy Ratio (CAR) decreased slightly to 44.5% (FY18: 47.1%) by end-FY19; there is still significant room for growth.

**Change in board composition:** The Board comprises six members and the Chief Executive Officer/General Manager (CEO/GM). Composition of the BOD changed primarily with the incoming of new Saudi quorum during the period under review. Mr. Sultan M. Hasan Abdulrauf has been appointed as the Chairman of the BOD in place of Mr. Mohammed W. Al-Harby. Remuneration policy for the BOD has been revised in accordance with the SBP's new guidelines.

**Saudi Pak Industrial and Agricultural Investment Company Limited      Annexure I**

<b>Composition of Board</b>	
<b>Directors</b>	<b>Representative</b>
Mr. Sultan M. Hasan Abdulrauf	Nominee Director of KSA/Chairman
Mr. Majid Misfer J. Alghamdi	Nominee Director of KSA
Mr. Ghanem Alghanem	Nominee Director of KSA
Mr. Zafar Hasan	Nominee Director of GoP/Deputy Chairman
Mr. Mohammad Tanvir Butt	Nominee Director of GoP
Mr. Qumar Sarwar Abbasi	Nominee Director of GoP

<b>Committee</b>	<b>Composition</b>
<b>Human Resource</b>	Mr. Sultan M. Hasan Abdulrauf (C) Mr. Zafar Hasan (M) Mr. Majid Misfer J. Alghamdi (M) Mr. Mohammad Tanvir Butt (M)
<b>Audit</b>	Mr. Majid Misfer J. Alghamdi (C) Mr. Mohammad Tanvir Butt (M) Mr. Ghanem Alghanem (M) Mr. Qumar Sarwar Abbasi (M)
<b>Risk</b>	Mr. Zafar Hasan (C) Mr. Majid Misfer J. Alghamdi (M) Mr. Qumar Sarwar Abbasi (M) Mr. Ghanem Alghanem (M)
<b>M=Member; C=Chairman</b>	

**Saudi Pak Industrial and Agricultural Investment Company Limited Annexure II**

<b>Financial Summary (amounts in PKR millions)</b>				
<b><u>BALANCE SHEET</u></b>	<b>31-Dec-17</b>	<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>31-Mar-20</b>
Total Investments	9,468	4,159	23,904	21,338
Net Advances	8,458	7,865	7,869	7,668
Lending to Financial Institutions	-	2,818	80	-
Non-Current Assets	2,518	3,112	3,055	3,043
Other Assets	1,723	1,237	2,177	1,675
<b>Total Assets</b>	<b>22,167</b>	<b>19,191</b>	<b>37,085</b>	<b>33,724</b>
Borrowings	9,077	5,771	22,759	19,325
Deposits & other accounts	8	8	510	912
Other Liabilities	877	763	812	670
Tier-1 Equity	10,631	10,810	10,816	10,918
Net Worth	12,205	12,649	13,003	12,817
Paid-up Capital	6,600	6,600	6,600	6,600
<b><u>INCOME STATEMENT</u></b>	<b>31-Dec-17</b>	<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>31-Mar-20</b>
Net Mark-up Income	743	603	763	194
Net Provisioning / (Reversal)	239	(77)	328	163
Non-Markup Income	717	446	426	174
Operating Expenses	362	428	456	95
Profit/(Loss) Before Tax	860	698	405	109
Profit/(Loss) After Tax	627	408	267	85
<b><u>RATIO ANALYSIS</u></b>	<b>31-Dec-17</b>	<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>31-Mar-20</b>
Gross Infection (%)	24.6	31.0	40.2	39.8
Provisioning Coverage (%)	82.0	69.6	55.1	57.9
Net Infection (%)	5.5	12.1	23.2	21.8
Cost of funds (%)	5.6	6.8	10.7	n.a
Capital Adequacy Ratio (CAR) (%)	45	47.1	44.5	n.a
Markup Spreads (%)	1.3	1.6	0.6	n.a
Efficiency (%)	31.8	45.9	38.9	32.5
ROAA (%)	2.7	2.0	0.9	1.0
ROAE (%)	6.1	3.8	2.1	2.6
Liquid Assets to Deposits & Borrowings (%)	88	58	25	25

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Annexure III**

**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](http://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](http://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](http://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 IV			
<b>Name of Rated Entity</b>	Saudi Pak Industrial and Agricultural Investment Company Limited				
<b>Sector</b>	Development Finance Institution (DFI)				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	09-Jun-20	AA+	A-1+	Stable	Reaffirmed
	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
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Kamal Uddin Khan	GM/CEO		March 4, 2020	
	Mr. Khawar Ashfaq	CFO		March 4/ May 18, 2020	
	Mr. Kashif Suhail	Head CFD		March 4, 2020	
	Mr. Ghairat Hayat	Head RMD		March 4, 2020	
	Sheikh Aftab Ahmad	Head CAD		March 4, 2020	
	Mr. Fateh Tariq	Head PMD		March 4, 2020	