RATING REPORT

Saudi Pak Industrial and Agricultural Investment Company Limited

REPORT DATE:
June 11, 2021

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	*June 11,'21*		*June 10,'20*	

COMPANY INFORMATION	
Incorporated in 1981	**External auditors:** A.F. Ferguson & Co.
Unlisted Public Company	**Chairman of the Board**: Mr. Sultan Mohammad Hasan Abdulrauf
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 (July 2020); http://www.vis.com.pk/kc-meth.aspx

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.

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: 1QFY21: Rs. 12.8b; FY20: Rs. 12.9b; FY19: Rs. 13.0b

Net profit: 1QFY21: Rs. 113.7m; FY20: Rs. 616.3m; FY19: Rs. 267.1m

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 rating of 'A-' from an international credit rating agency.

Advances: In the backdrop of challenging economic conditions and uncertainty posed by pandemic, disbursements were made with a highly cautious and conservative strategy in order to curtail already high infection ratios. The institution made total disbursements of Rs. 449.4m (FY19: Rs. 4.0b), considerably below the target of Rs. 4.5b, resultantly gross loan portfolio stood slightly lower at end-FY20. During 1QFY21, the institution made a fresh disbursement of Rs. 428m to a textile firm under TERF. The disbursement target for FY21 is set at Rs. 4.0b; the institution intends to keep following conservative strategy and tap top to mid-tier clients. While textile sector exposure has approached sectoral limit, the management plans to focus on sectors like cement, steel and Public Sector Development Programme (PSDP) projects.

The concentration of top-10 exposures in gross advances portfolio increased to 55.6% (FY19: 54.5%) mainly due to contraction in gross portfolio. Given small size of lending portfolio, concentration has remained high. With decrease in gross loan portfolio, sector-wise concentration also witnessed increase in FY20. The institution reschedule/deferred loans amounting to Rs. 2.8b in FY20 as per the relief provided by State Bank of Pakistan (SBP). Non-Performing Loans (NPLs) decreased to Rs. 3.9b (FY19: Rs. 4.1b) by end-FY20 mainly as a result of decrease in NPLs given regularization of a textile sector client. Around 90% of the total NPLs pertained to loss category out of which around two-third constituted legacy portfolio

Overall asset quality remained largely intact. Albeit NPLs were lower, gross infection ratio increased slightly to 41.7% (FY19: 40.2%) in FY20 due to lower gross advances. On account of higher provisioning charge against NPLs, net infection decreased to 20.0% (FY19: 23.2%). With regularization of Big Bird group and full recovery from Hira Terry Mills Limited (Rs. 1b), infection levels are projected to decrease by end-FY21.

Investments: Investment portfolio of the institution augmented to Rs. 35.6b (FY19: Rs. 23.9b) and the increase was largely manifested in Pakistan Investment Bonds (PIBs). The investment strategy entailed buying primarily floating rate PIBs which constituted around 60% of overall portfolio. Given steepening of the yield curve in 2HFY20, the company recorded a deficit of Rs. 774.7m on the PIBs portfolio. The deficit increased to Rs. 907.2m by end-1QFY21 out of which around three-fourth of the deficit was related to fixed rate while the rest to floating rate instruments. PIBs portfolio stood lower at Rs. 27.7b by end-1QFY21 as the company rationalized the portfolio by selling PIBs amounting Rs. 2b and realized net loss of Rs. 81m. Fixed rate PIBs have modified duration of 4.9 years, thereby exposing the company to a relatively high interest rate risk.

Carrying value of equity market investments in listed companies stood higher at Rs. 2.3b (FY19: Rs. 2.1b) by end-FY20. The listed equity portfolio primarily comprised highly liquid dividend yielding stocks. Major exposures included commercial banks, power generation & distribution, chemicals, fertilizer, and oil & gas exploration companies. The Company has maintained sizable provisions on the equity portfolio, which can lead to considerable gains upon reversal, in case stock market continues to perform well. Net investment in both listed and unlisted TFCs remained at Rs. 2.3b (FY19: Rs. 2.3b) by end-FY20. With return on TFCs pegged with market rates, interest rate risk in the investment is considered manageable.

Profitability: Overall profitability indicators improved during FY20 primarily on the back of higher income from investment portfolio. Markup income was recorded higher at Rs. 3.7b (FY19: Rs. 2.3b) during FY20. Income from investment amounted to Rs. 3.0b (FY19: Rs. 1.4b), contributing around 80% (FY19: 60%) to the total markup income. Income from advances portfolio decreased to Rs. 708.8m (FY19: Rs. 883.6m) due to decrease in markup rates and overall reduction in portfolio size in FY20. Income on lending to financial institutions and placements with other banks also decreased. With increase in borrowings, markup expense increased to Rs. 2.7b (FY19: 1.6b). Yield on markup bearing assets decreased to 10.9% (FY19: 11.3%) while cost of funding decreased to 9.5% (FY19: Rs. 10.7%) on account of lower markup rates. Markup spread stood higher at 1.4% (FY19: 0.6%) during FY20.

Core earnings increased to Rs. 918.8m (FY19: Rs. 699.5m) during the outgoing year, primarily on back of higher return on investment portfolio along with slight increase in rental income. Gain on securities increased to Rs. 223.4m (FY19: Rs. 21.6m). Resultantly, profit before tax was recorded higher at Rs. 808.8m (FY19: Rs. 404.9m) despite some increase in provisioning charge and lower fee based and dividend income. Accounting for taxation, net profit amounted to Rs. 616.3m (FY19: Rs. 267.1m) in FY20. Despite lower net mark-up income and loss on securities, net profit stood slightly higher during 1QFY21 primarily on the back of higher dividend income and gain on sale of non-banking assets.

Liquidity & Capitalization: Commercial borrowings mobilized through repurchase borrowing agreements increased to Rs. 26.5b (FY19: Rs. 15.9b) by end-FY20. Other sources of funding mix included borrowings from SBP under refinance scheme (LTFF) and borrowings obtained against charge on book debts/receivables. Asset liability mismatch is present on the balance sheet as long-term investment are being funded through short-term repo borrowings. The management monitors maturity mismatch on an ongoing basis to manage the overall associated risk. Meanwhile, liquidity risk is considered manageable as repo borrowings are secured against highly liquid government securities amounting Rs. 26.6b (FY19: Rs. 16.0b).

Deposits, as Certificates of Investments, increased to Rs. 2.4b (FY19: Rs. 510m) by end-FY20. Overall borrowings stood lower at Rs. 29.1b at end-1QFY21 while deposits stood at Rs. 2.5b. Deposit base is targeted to reach Rs. 3b by end-FY21.

Overall liquidity profile weakened with decrease in liquid assets (adjusted for repo) as a percentage of total borrowings & deposits to 21.6% (FY19: 25.4%) by end-FY20 and further decrease to 13.9% by end-1QFY21. Tier-1 equity increased to Rs. 11.5b (FY19: Rs. 10.8b) mainly on back of profit retention. Meanwhile, total equity base decreased to Rs. 12.9b (FY19: Rs. 13.0b) due to the impact of deficit on revaluation of investments. Net NPLs (including TFCs) as a portion of Tier-1 capital decreased to 12.3% (FY19: 17.4%) at end-FY20. Capital adequacy Ratio (CAR) decreased to 38.3% (FY19: 44.5%) due to increase in Risk Weighted Assets (RWAs) primarily in line with higher market risk. Additionally, Tier-II eligible capital decreased due to revaluation deficit on PIBs portfolio. However, CAR is considered adequate and exhibits ample room for growth above the regulatory requirement of 11.5%.

Corporate Governance: The Board comprises seven members including the Chief Executive Officer/General Manager (CEO/GM). Composition of the BOD remained unchanged during the period under review. Board maintains its oversight through three committees namely Board Audit Committee (BAC), Board Human Resource & Remuneration Committee (BHRC) and Board Risk Management Committee (BRMC).

Saudi Pak Industrial and Agricultural Investment Company Limited Annexure I

Composition of Board	
Directors	**Representative**
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

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

Saudi Pak Industrial and Agricultural Investment Company Limited Annexure II

BALANCE SHEET	31-Dec-18	31-Dec-19	31-Dec-20	31-Mar-2021
Total Investments	4,159	23,904	35,557	33,382
Net Advances	7,865	7,869	6,811	6,501
Lending to Financial Institutions	2,818	80	120	152
Non-Current Assets	3,112	3,055	2,956	2,923
Other Assets	1,237	2,177	2,792	1,813
Total Assets	19,191	37,085	48,236	44,771
Borrowings	5,771	22,759	32,320	29,057
Deposits & other accounts	8	510	2,446	2,508
Other Liabilities	763	812	558	437
Paid-Up Capital	6,600	6,600	6,600	6,600
Tier-1 Equity	10,810	10,816	11,497	11,642
Net Worth	12,649	13,003	12,912	12,769
INCOME STATEMENT	31-Dec-18	31-Dec-19	31-Dec-20	31-Mar-2021
Net Mark-up Income	603	763	992	184
Net Provisioning / (Reversal)	(77)	328	340	94
Non-Markup Income	446	426	612	135
Operating Expenses	428	456	455	107
Profit/(Loss) Before Tax	698	405	809	118
Profit/(Loss) After Tax	408	267	616	114
RATIO ANALYSIS	31-Dec-18	31-Dec-19	31-Dec-20	31-Mar-2021
Gross Infection (%)	31.0	40.2	41.7	41.9
Provisioning Coverage (%)	69.6	55.1	65.1	69.2
Net Infection (%)	12.1	23.2	20.0	18.2
Cost of funds (%)	6.8	10.7	9.5	7.6*
Capital Adequacy Ratio (CAR) (%)	47.1	44.5	38.3	NA
Markup Spreads (%)	0.1	0.6	1.4	0.7*
Efficiency (%)	45.9	38.9	32.9	27.1
ROAA (%)	2.0	0.9	1.4	1.0*
ROAE (%)	3.3	2.1	4.8	3.5*
Liquid Assets to Deposits & Borrowings (%)	58.3	25.4	21.6	13.9

**Annualized*

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

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 — Annexure 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 Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
11-Jun-21	AA+	A-1+	Stable	Reaffirmed
10-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

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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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Khawar Ashfaq	CFO	April 12, 2021
Mr. Kashif Sohail	Head CFD	April 12, 2021
Mr. Ghairat Hayat	Head RMD	April 12, 2021
Mr. Fateh Tariq	Head PMD & T	April 12, 2021
Mr. Aftab Ahmad	Head CAD & SAM	April 12, 2021