RATING REPORT

Saudi Pak Industrial and Agricultural Investment Company Limited

REPORT DATE:
June 28, 2024

RATING ANALYST:

Basel Ali Assad
basel.ali@vis.com.pk

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 Action	Reaffirmed		Reaffirmed	
Rating Date	*June 28, 2024*		*June 23, 2023*	

COMPANY INFORMATION	
Incorporated in 1981	**External auditors:** Grant Thornton Anjum Rahman – Chartered Accountants
Unlisted Public Company	**Chairman of the Board**: Mr. Sultan Abdulrauf
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Rizwan Ahmed Sheikh
Government of Pakistan – 50%	
Kingdom of Saudi Arabia – 50%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Government Supported Entities
https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf
Financial Institutions Rating
https://docs.vis.com.pk/docs/FinancialInstitution.pdf

APPLICABLE RATING SCALE
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Saudi Pak Industrial and Agricultural Investment Company Limited

OVERVIEW OF THE INSTITUTION

Saudi Pak Industrial & Agricultural Investment Company Limited (Saudi Pak) is a development financial institution. It has a Head Office in Islamabad and regional offices in Lahore and Karachi. Saudi Pak was founded in 1981 and later changed its status to a public unlisted company.

Profile of Chairman
Mr. Sultan Abdulrauf, a nominee of KSA, has more than 24 years of experience in corporate finance and equity management.

Profile of CEO
Mr. Rizwan Sheikh is a seasoned professional with more than 25 years of experience in driving portfolio strategy for local and international banks and rolling out innovative responsible finance initiatives for corporate and MSME customers.

RATING RATIONALE

The ratings assigned to Saudi Pak Industrial and Agricultural Investment Company Limited ("Saudi Pak" or "the Institution") take into account its strong shareholders' profile, with two sovereigns, Government of Pakistan and Kingdom of Saudi Arabia (KSA), having an equal stake in the Institution under the terms of a joint venture agreement. KSA has outstanding sovereign rating of 'A' and 'A+' from two different global credit rating agencies.

Slight increase in gross financing over the rating review period owing to cautious lending strategy amid challenging macroeconomic conditions

The gross loan portfolio remained unchanged at Rs. 11.5b at end-CY23 with considerably lower fresh loan disbursements; the same reflects the Institution's cautious lending approach amidst the challenging macroeconomic environment. Fresh loans were largely directed towards companies operating in agriculture processing, textile, pharmaceutical and miscellaneous sectors. Despite a diversified loan portfolio, notable concentration exists in the textile, transportation, storage & communication, cement, dairy & poultry, and services sectors, which together constitute more than two-thirds of the total loan book. As per management, no breaches of sector or party/group limits were reported during CY23. Moreover, given the limited portfolio size, the concentration of the top 10 funded exposures relative to overall gross advances remained high at 54.7% (CY22: 65.2%). The gross financing portfolio slightly increased to Rs. 11.7b by end-1QCY24. The Institution extended sizeable non-funded exposures in the form of guarantees, primarily to power and microfinance companies. While currently the microfinance sector is under stress mainly due to dismal economic environment, the credit risk of the non-funded exposure derives comfort from high rated entities. However, total disbursements of Rs. 6b (including non-funded exposures) are planned in CY24. The management aims to focus on clients within the agricultural value chain and is exploring short-term financing products related to the same.

Improvement in asset quality indicators during the outgoing year on the back recoveries against impaired portfolio and substantial provision coverage

Gross infection improved to 22.4% (CY22: 24.2%) at end-CY23 owing to decrease in Non-Performing Loans (NPLs) as a result of recoveries against infected portfolio; however, the same remained on the higher side due to notable legacy impairments. Moreover, sizeable increase in Stage 3 provision due to the adoption of IFRS-9 led to a higher specific provisioning coverage of 113.6% (CY22: 81.7%) at end-CY23. The net infection thereby turned negative at end-Dec'23.

During 1QCY24, fresh infection related to a group led to a notable increase in NPLs, resulting in deterioration of asset quality indicators. However, the management expects complete recovery of the same during the ongoing year following settlement agreement with the entity. Additionally, the management has budgeted further recoveries on advances to the tune Rs. 500m by end-Dec'24. Going forward, improvement in asset quality would remain an important rating factor.

Continuation of a conservative investment mix

Overall investment portfolio decreased slightly to Rs. 35.3b (CY22: Rs. 36.3b) on the back of decline in listed equity and TFC/Sukuk investments as the management aimed to channel liquidity into short-term debt securities amidst the high interest rate environment; however, as investments in T-Bills matured before end-Dec'23, the same were not reflected on the balance sheet. The overall credit risk of the portfolio is considered modest given that about 88.8% (CY22: 85.9%) of the same consisted of government securities at end-CY23. Exposure to market risk is also moderated as about three-quarters of total PIBs consisted of floating-rate instruments while the majority of the fixed-rate PIBs are expected to mature by Sept'24, as per management. Meanwhile, given that about two-thirds of listed equities were measured at fair value through profit & loss

(FVPL), the bottom-line was directly exposed to fluctuations in market values of the same. Unlisted equity exposures remained unchanged at end-Dec'23. Total investment in TFCs declined during CY23; nevertheless, the associated interest rate risk is considered manageable given that the same are pegged with benchmark rates. Some recoveries in NPLs related to TFCs were witnessed during the outgoing year as well. Going forward, the management envisages sizeable recoveries amounting to about Rs. 500m against infected TFCs by end-Dec'24 with declassification of a major impairment already booked during April'24.

During 1QCY24, the investment portfolio expanded notably to Rs. 42.9b, with increase manifested primarily in floating-rate PIBs. Going forward, the management aims to continue its cautious investment approach focusing on relatively shorter tenor floating-rate securities.

Improvement in bottom-line during CY23 largely on account of capital gains

Saudi Pak's net interest earnings decreased during the outgoing year despite higher benchmarks due to price adjustment lag of interest-bearing assets relative to funding sources. However, non-markup income increased mainly due to realized gains on disposal of listed shares and unrealized gains on equities measured at FVPL. Additionally, fees & commission earnings also increase in line with higher exposure to non-fund guarantees. However, with lower recurring income coupled with inflationary increase in operating expenses, the efficiency ratio increased to 51.2% (CY22: 45%). Despite increase in net provision, profit after tax was reported higher at Rs. 507.6m (CY22: Rs. 310.8m) during CY23.

During 1QCY24, the bottom-line remained at par vis-à-vis SPLY. Going forward, with the expected maturity of fixed-rate PIBs during the ongoing year, pressure on net interest income is likely to be alleviated to a certain extent. Additionally, materialization of expected provision reversals coupled with the management's focus on advisory services may help support profitability.

Adequate liquidity profile

Saudi Pak's overall liquidity position is considered adequate with liquid assets to total deposits and borrowings declining to 46.2% (CY22: 68.1%) by end-CY23. Despite higher liquid assets, decline in the said ratio was witnessed on account of higher investments given as collateral and also due to increase in deposits and non-repo borrowings. Nonetheless, liquidity coverages are remained largely in sync with the median of DFIs rated by VIS. The Institution continues to rely on secondary-market borrowings for funding. The deposit base also increased on the back of higher certificate of investments (COIs) held by public-sector entities. The repo borrowings are secured against highly liquid government securities which provides comfort to liquidity risk. However, significant short-term asset liability maturity mismatch remained as short-term borrowings were utilized to fund the investment portfolio which is a phenomenon of DFI sector. Nevertheless, the management monitors maturity mismatch to manage associated risks and aims to address the issue by aligning interest-bearing liabilities and assets in terms of tenure and markup, moving forward. During 1QCY24, liquid assets to deposits and borrowings enhanced in line with uptick in liquid assets and repo borrowings. Going forward, maintenance of sound liquidity buffers will continue to be important rating factor.

Adequate capitalization levels

Saudi Pak's total equity increased marginally mainly due to uptick in internal capital generation and revaluation of investments; however, adjustment due to application of IFRS-9 on financial instruments coupled with the impact of rate change and loss realized on sale of FVOCI investments further restricted equity expansion. The Institution's capitalization levels remained sound as Capital Adequacy Ratio (CAR) stood above the regulatory requirements and median of DFI peers at 42.4% (CY22: 42.9%). At the same time, net NPLs relative to Tier-1 equity improved owing to the impact of higher provision against infected portfolio. Maintenance of strong capitalization levels will remain imperative for ratings, going forward.

Satisfactory Corporate Governance Framework

The Board of Directors (BoD) comprises six members including 3 nominees each of the GoP and the KSA who have vast experience in development finance and government-supported entities. Two changes in BoD members were witnessed during CY23 which pertained to nominees by the GoP. The BoD maintains its oversight through three committees, namely, the Board Audit Committee, the Board Human Resource & Remuneration Committee and the Board Risk Management Committee.

Saudi Pak Industrial and Agricultural Investment Company Limited Annexure I

Financial Summary (Rs. In m)	CY21	CY22	CY23	1QCY24
BALANCE SHEET				
Total Investments	31,131	36,321	35,337	42,875
Gross Advances	9,109	11,475	11,472	11,659
Net Advances	6,868	9,119	8,262	8,480
Lending to Financial Institutions	-	-	3,250	-
Other Assets	6,689	8,166	9,289	9,372
Total Assets	**44,688**	**53,606**	**56,137**	**60,727**
Borrowings	26,457	36,775	37,199	41,691
Deposits & other accounts	2,912	1,953	3,665	3,965
Other Liabilities	861	835	1,094	777
Total Liabilities	**30,229**	**39,563**	**41,959**	**46,433**
Paid Up Capital	6,600	6,765	6,765	6,765
Tier-1 Capital	11,994	12,254	12,300	12,347
Net Worth	**14,459**	**14,044**	**14,179**	**14,294**
INCOME STATEMENT	**CY21**	**CY22**	**CY23**	**1QCY24**
Net Mark-up Income	1,431	499	334	117
Net Provisioning / (Reversal)	(140)	319	467	81
Non-Markup Income	301	740	1,253	198
Administrative Expenses	530	528	561	134
Profit/(Loss) Before Tax	1,341	393	558	101
Profit/(Loss) After Tax	922	310	508	149
RATIO ANALYSIS	**CY21**	**CY22**	**CY23**	**1QCY24**
Advances to Deposits Ratio (%)	266.9	450.0	244.7	232.9
Liquid Assets to Deposits & Borrowings (%)	102.5	68.1	46.2	75.1
NPLs	2,387	2,778	2,568	3,616
Gross Infection (%)	26.2	24.2	22.4	31.0
Total Provisioning Coverage (%)	93.9	81.7	113.6	89.8
Net Infection (%)	2.1	5.5	-4.1	8.7
Costs of Deposits (%)	7.6	13.4	22.8	-
Cost of funds (%)	7.3	13.0	19.8	-
Net NPLs to Tier-1 Capital (%)	1.2	4.1	-2.8	6.0
Tier-1 CAR (%)	41.4	39.3	37.3	36.1
Capital Adequacy Ratio (CAR) (%)	47.2	42.9	42.4	41.2
LCR (%)	225.5	140.8	164.1	144.1
NSFR (%)	167.4	169.0	154.6	189.9
Markup Spreads (%)	2.0	-1.1	1.3	-
Efficiency (%)	26.1	45.0	51.2	49.9
ROAA (%)*	2.0	0.6	0.9	1.0
ROAE (%)*	6.7	2.2	3.6	4.2

**Annualized*

REGULATORY DISCLOSURES	Appendix II
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		
28-Jun-24	**AA+**	**A-1+**	**Stable**	**Reaffirmed**
23-Jun-23	AA+	A-1+	Stable	Reaffirmed
28-Jun-22	AA+	A-1+	Stable	Reaffirmed
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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Safdar Abbas Zaidi	CFO	June 14, 2024
Mr. Zuhair Ismail	Acting Head CFD	
Mr. Fateh Tariq	Head PMD & SAM	
Mr. Umer Farooq	CRO/Head CAD and Risk Management	