

## RATING REPORT

### Pak Oman Investment Company Limited (POIC)

**REPORT DATE:**

June 30, 2021

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	June 30, '21		June 30, '20	

#### COMPANY INFORMATION

<b>Incorporated in 2001</b>	<b>External auditors:</b> EY Ford Rhodes Chartered Accountants
<b>Unlisted Public Company</b>	<b>Chairman of the Board:</b> H.H. Sayyid Juland Jaifar Salim Al Said (Effective since February 2021)
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Bahauddin Khan
Ministry of Finance, Pakistan – 49.99%	
Ministry of Finance, Oman – 49.99%	

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Government Supported Entities

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Meth-GSEs201606.pdf>

## Pak Oman Investment Company Limited

### OVERVIEW OF THE INSTITUTION

POIC was incorporated as a private limited company in July, 2001. Subsequently, it was converted into a public limited company in March, 2004. The company is a joint venture between the Government of Pakistan (GoP) and the Sultanate of Oman (SO).

#### Profile of Chairman

His Highness Sayyid Juland Jaifar Al Said has over 15 years of experience at the Oman Investment Authority (OIA). He currently heads the Investment Risk & Assurance function at OIA. His Highness has served on the board of POICL and some of its subsidiaries since 2017. He has been appointed as Chairman of the Board of Directors of the Company in 2021.

#### Profile of CEO

Mr. Bahauddin Khan has 37 years of Banking experience in both Multinational and local banks. Prior to joining POIC he served as Chief Operating Officer of Bank Alfalah Ltd and associated with prestigious banks such as Standard Chartered Bank, Deutsche Bank, Union Bank and UBL in senior positions.

### RATING RATIONALE

Incorporated as a Development Financial Institution (DFI); Pak Oman Investment Company Limited is primarily engaged in the provision of corporate and investment banking services with the focus on promotion of economic growth of Pakistan and Oman through industrial development and agro-based industries on commercial basis. The company operates through its headquarters in Karachi, branch office in Lahore, and representative offices at Islamabad, Gwadar, and Muscat.

#### Rating Drivers

##### Sound sponsor profile with two major sovereign owners remain a key rating driver

Ratings draw comfort from POIC's joint venture shareholding structure with shares equally vested between the Government of Pakistan and Sultanate of Oman through their respective finance ministries. According to S&P Global, the sovereign ratings of Sultanate of Oman stands at 'B+/B-' with 'Stable' outlook. The sponsors of the company have historically extended financial support towards POIC, and VIS expects the trend to continue going forward if need arises.

##### Consolidation of portfolio to continue going forward

POIC continued to pursue a prudent lending strategy whereby gross advances increased by 5% to Rs. 21.6b (FY19: Rs. 20.6b) in FY20. Consequently, portfolio concentration remained high with top 5 sectors constituting 62% (FY19: 58%) of the portfolio. Client wise concentration also remained high with top ten funded exposure clients constituting approximately 40% of the portfolio. Going forward, management plans to continue the consolidation strategy with focus on maintaining portfolio quality instead of growth.

##### Credit risk remains elevated

During FY20; Non-performing Loans (NPL's) of the company increased to Rs. 1,527m (FY19: Rs. 678.3m). As a result, gross infection and net infection increased to 7.1% (FY19: 3.3%) and 4.2% (FY19: 0.63%). However, management expects to recover due amounts going forward upon considerable repayment comfort been provided by creditors. Provisioning coverage stands at 42.7% (FY19: 81.4) during FY20. Management has enhanced monitoring of exposures, and continues to maintain sound underwriting practices for improving portfolio quality going forward.

Investment portfolio increased to Rs. 68.2b (FY19: Rs. 59.4b) at end-FY20; recording 15% growth. Credit risk of investment portfolio continues to remain low as 93% of the portfolio is deployed GoP securities. Investment in the same has grown by 16% primarily due to increase in in Pakistan Investment Bond (PIB) investments. Investment portfolio remains exposed to market risk, albeit remaining manageable.

##### Profitability indicators depict improvement

During FY20, POIC recorded 52% increase in net interest income (FY20: Rs. 1.5b; FY19: Rs.

1.0b) on the back of lower interest rate regime introduced by the government amid pandemic. Non mark-up income also increased primarily due to increase in dividend income and gain on securities. Operating expenses witnessed increase; however were outweighed by growth in total income. The company booked provisions during FY20 due to bad debts; thus lowering the bottom-line. Spreads of POIC improved during FY20 as reduction in cost of funds outweighed decrease in return on markup bearing assets. Going forward, spreads are expected to be impacted by increase in interest rates. Growth in profitability is projected to remain on the lower side during the outgoing year vis-à-vis FY20.

#### **Manageable liquidity profile and capitalization indicators provide comfort**

The liquidity profile of the company remains adequate as liquid assets continue to provide comfortable cushion for deposits and borrowings (FY20: 84.9%; FY19: 84.7%). Comfort is also provided through regulatory compliant Liquidity Coverage Ratio (LCR) (FY20: 53%; FY19: 68%) and Net Stable Funding Ratio (NSFR) (FY20: 101.51%; FY19: 101.77%). Financial institutions and SBP's pass through financing schemes continue to remain the primary funding sources, while deposits comprise of Certificate of Investments (COIs). Limited outreach of the bank and tough competition from commercial banks remain major contributors for concentration in deposit base which continued to remain on the higher side during FY20 with top ten depositors constituting half of the total deposits.

Equity base of the institution grew to Rs. 9.0b during FY20 (FY19: Rs. 8.4b) on the back of profit generation. Capital Adequacy Ratio (CAR) increased to 17.19% (FY19: 15.57%) on account of higher growth in total capital with comparison to risk weighted assets; and remained compliant with regulatory requirement.

**Pak Oman Investment Company Limited (POIC)**
**Appendix I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>				
<b>BALANCE SHEET</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>1Q'FY21</b>
Total Investments	28,443.4	59,375.9	68,217.3	87,252.9
Net Advances	20,480.7	20,024.1	20,935.3	20,121.7
Total Assets	58,110.5	92,082.8	96,806.1	111,808.5
Borrowings	39,961.6	73,681.0	70,551.8	90,099.7
Deposits & other accounts	9,010.5	8,576.4	15,869.1	11,990.9
Subordinated Loans	-	-	-	-
Share Capital	6,150.0	6,150.0	6,150.0	6,150.0
Equity (excluding surplus)	8,103.5	8,191.7	8,734.5	8,472.4
Net Worth	8,142.9	8,353.5	9,083.0	8,703.4
<b>INCOME STATEMENT</b>				
Net Mark-up Income	839.7	1,020.9	1,548.5	369.0
Net (Provisioning) / Reversal	332.1	34.1	(145.0)	49.9
Non-Markup Income	161.6	236.3	670.8	35.6
Operating Expenses	552.2	577.4	680.2	158.7
Profit (Loss) Before Tax	749.3	681.8	1,337.1	278.9
Profit (Loss) After Tax	464.4	504.3	972.4	198.4
<b>RATIO ANALYSIS</b>				
Gross Infection (%)	3.4	3.4	7.1	7.3
Provisioning Coverage (%)	81.6	81.4	42.7	43.0
Net Infection (%)	0.6	0.7	4.2	4.3
Cost of funds (%)	6.9	12.0	9.7	7.0
Net NPLs to Tier-1 Capital (%)	2.4	2.1	12.9	13.0
Capital Adequacy Ratio (C.A.R (%))	17.3	15.6	17.2	17.1
Markup Spreads (%)	1.0	0.7	1.8	1.3
Efficiency (%)	60.0	52.7	41.6	43.7
ROAA (%)	0.8	0.7	1.0	0.8
ROAE (%)	5.7	6.2	11.2	8.9
Adjusted Liquid Assets to Deposits & Borrowings (%)	67.6	84.7	84.9	87.5

**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](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 III			
<b>Name of Rated Entity</b>	Pak Oman Investment Company Limited				
<b>Sector</b>	Development Finance Institution (DFI)				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<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>				
	30-Jun-21	AA+	A-1+	Stable	Reaffirmed
	30-Jun-20	AA+	A-1+	Stable	Reaffirmed
	24-Jun-19	AA+	A-1+	Stable	Reaffirmed
	27-Jun-18	AA+	A-1+	Stable	Reaffirmed
	2-Jun-17	AA+	A-1+	Stable	Reaffirmed
	29-Jun-16	AA+	A-1+	Stable	Reaffirmed
	30-Jun-15	AA+	A-1+	Stable	Reaffirmed
	30-Jun-14	AA+	A-1+	Stable	Reaffirmed
	12-Jun-13	AA+	A-1+	Stable	Reaffirmed
	29-Jun-12	AA+	A-1+	Stable	Reaffirmed
<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 Meeting(s) Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Mr. Mohammad Jamal Nasir	Chief Financial Officer	June 07, 2021		
	Mr. Zalmi R. Khan	Corporate Head			
	Mr. Azeem Dada	SVP-Risk Management			