

## RATING REPORT

### Pak Oman Investment Company Limited (POIC)

**REPORT DATE:**

June 22, 2023

**RATING ANALYST:**

Abdul Kadir

[kadir@vis.com.pk](mailto:kadir@vis.com.pk)

#### 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 22 <sup>nd</sup> , '23 |            | June 28 <sup>th</sup> , '22 |            |
| Rating Action   | Reaffirm                    |            | Reaffirm                    |            |

#### COMPANY INFORMATION

|  |  |
|--|--|
| Incorporated in 2001                             | <b>External auditors:</b> Messrs. BDO Ebrahim & Co., Chartered Accountants       |
| Unlisted Public Company                          | <b>Chairman of the Board:</b> H.H. Sayyid Juland Jaifar Salim Al Said            |
| <b>Key Shareholders (with stake 5% or more):</b> | <b>Chief Executive Officer:</b> Mr. Nauman Ansari (Effective since June 5, 2023) |
| Ministry of Finance, Pakistan – 49.99%           |  |
| Oman Investment Authority, Oman – 49.99%         |  |

#### APPLICABLE METHODOLOGY(IES)

Government Supported Entities <https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf>  
 Financial Institutions Rating <https://docs.vis.com.pk/docs/FinancialInstitution.pdf>  
 Rating Scales & Definitions <https://docs.vis.com.pk/docs/VISRatingScales.pdf>

## Pak Oman Investment Company Limited

### OVERVIEW OF THE INSTITUTION

POIC was initially established as a privately held company in July 2001 before being converted into a public limited company in March 2004.

It operates as a JV between the Government of Pakistan (GoP) and the Sultanate of Oman (SO).

#### Chairman's Profile:

His Highness Sayyid Juland Jaiifar Al Said brings over 16 years of experience from his tenure at the Oman Investment Authority (OIA). Presently, he leads the Investment Risk & Assurance function at OIA. His Highness has been serving on the board of POIC and its subsidiary since 2017. In 2021, he assumed the role of Chairman of POIC's BoD.

#### Profile of MD / CEO

Mr. Nauman Ansari has recently joined as MD/CEO of the company. He holds a diverse background encompassing 30 years of experience in the banking sector. He has also served on numerous Boards of Directors. Currently, Mr. Ansari is Independent Director / Chairman, Board of Directors of Parwaaz Financial Services Limited and Independent Director, Punjab Thermal Power Company Limited.

### RATING RATIONALE

Pak Oman Investment Company Limited (POIC), a Development Financial Institution (DFI), is focused to provide corporate and investment banking services. The company's core objective revolves around fostering economic growth in both Pakistan and Oman by facilitating industrial development and promoting agro-based industries on a commercial basis. Operating from its headquarters in Karachi, POIC extends its outreach through a branch office in Lahore and representative offices located in Islamabad, Gwadar, and Muscat.

#### Rating Drivers

##### **A robust sponsor profile, benefiting from the significant presence of two sovereigns.**

POIC's ratings are supported by its joint venture (JV) shareholding structure, with equal ownership held by the Government of Pakistan (GoP) and the Sultanate of Oman (SO). S&P upgraded the sovereign rating of the SO from 'BB-' to 'BB' (Stable) in Nov'22 and then assigned a 'Positive' outlook to the assigned rating in Mar'23. The improvement in rating incorporates factors such as higher oil prices, increased hydrocarbon production, and the SO's fiscal reform initiatives. POIC's sponsors have demonstrated support by providing financial assistance. SO has taken a long-term perspective on its investment and historically extended financial support towards POIC. VIS anticipates the trend to persist in the future, if the need arises.

##### **Conservative lending strategy with high client and sector concentration**

In the backdrop of challenging economic conditions, disbursements were made with a cautious strategy. Keeping in view expected recovery against advances during the outgoing year, the company made higher disbursements of Rs. 7.1b (FY21: Rs. 4.8b) to largely maintain the gross loan portfolio at Rs. 20.2b (FY21: Rs. 20.5b) at end-FY22. Total net advances accounted for 12.3% of the total asset base, with a significant portion allocated to investments. Key sectoral exposures included textiles, power, transport, storage and communication and services. Given small size of lending portfolio, concentration has remained high with top 20 advances constituted about 56% of the total advances. During 1QFY23, the company made a fresh disbursement of Rs. 1.1b. The disbursement target for FY23 is set at Rs. 6.3b; the management intends to keep following conservative strategy and tap small ticket size clients across different sectors.

##### **Some deterioration in asset quality indicators witnessed in FY22. However, recent adoption of IFRS-9 led to improved provisioning coverage and net infection**

The asset quality indicators of the company experienced signs of weakening, with both gross infection and net infection increasing to 11.0% (FY21: 9.4%) and 7.1% (FY21: 5.9%) respectively by end-22 on account of increase in non-performing loans and largely stagnant loan portfolio. A couple of credit exposures related to packaging and real estate sectors were added to NPL during FY22. During 1Q23, the company adopted IFRS-9. The provisioning coverage thereby increased significantly to 74.8% (FY22: 38.4%; FY21: 39.0%) and resultantly net infection improved to 3.0%. Maintenance of asset quality remains a key rating driver.

##### **Sizable investment portfolio with low credit and manageable market risk exposure**

Investment portfolio increased to Rs. 125.7b (FY21: Rs. 101.8b) by end-FY22. The increase was largely manifested in government securities with Pakistan Investment Bonds (PIBs) amounting Rs. 63.4b (FY21: Rs. 46.3b) and T-Bills amounting Rs. 57.9b (FY21: 49.8b). As the yield curve steepened, the company recorded deficit of Rs. 559.6m on the PIBs portfolio. The deficit

increased to Rs. 1.4b by end-1QFY23. However, the investment strategy entailed buying floating rate PIBs which constituted around 98% of the PIBs portfolio at end-1QFY23; the related market risk is therefore considered manageable. Investment portfolio comprises 96.7% of the government securities, thus implying low credit risk.

#### **Profit decreased primarily due to pressure on mark-up spreads and higher incidence of provision**

Overall profitability indicators stood lower primarily on account of pressure on mark-up spreads and provision charge against non-performing loans during FY22. Markup income was recorded higher at Rs. 17.5b (FY21: Rs. 8.0b) during FY22. Markup expense increased to Rs. 16.7b (FY21: 6.8b) mainly due to higher markup charge amounting Rs. 15.2b (FY21: Rs. 5.9b) on overall borrowings. With higher cost of funds and some lag in repricing of markup bearing assets, pressure on markup spreads was witnessed which stood at 0.21% (FY21: 0.85%) during FY22.

Non-interest income increased to Rs. 476.7m (FY21: Rs. 218.1m) during FY22. Dividend income was also recorded higher in FY22. POIC booked net provisions of Rs. 171.9m (FY21: Rs. 49.3m) during FY22. The company managed to curtail operating expenses despite inflationary trend during the review period. Accounting for taxation, net profit stood lower at Rs. 333.8m (FY21: Rs. 477.7m). Despite significantly lower non markup income, net profit stood higher during 1QFY23 primarily on the back of higher net markup income and reversal in provision against loans and advances.

#### **Adequate liquidity and capitalization profile**

Liquidity profile in terms of liquid assets as a proportion of total deposits and borrowings improved considerably in the past year to 74.9% (FY22: 75.8%; FY21: 47.4%) by end-1QFY23. The POIC, in line with other DFIs, relies on SBP's pass through financing schemes, financial institutions, and deposits for its funding requirements. Total borrowings increased to Rs. 132.9b (FY21: Rs. 104.0b) by end-FY22 with around three fourth emanating from repo borrowings. Meanwhile, total deposits stood slightly lower at Rs. 13.5b (FY21: Rs. 14.3b; FY20: 15.9b) due to some withdrawal of funds from financial institutions and private sector. At end-FY22, top 10 deposits remained high at around 58% of the total deposit base. With limited outreach and competition from commercial banks, POIC would continue to face challenges in mobilizing cheaper deposits.

On January 1, 2023, POIC adopted IFRS-9. Since then, the company has recorded a net expected loss of Rs. 788.3m. Meanwhile, the company continues to payout cash dividend. This along with additional provisioning due to adoption of IFRS-9 has caused the Capital Adequacy Ratio (CAR) to decrease to 18.5% (2022: 21.9%) by end-1Q23, though it remained comfortably above the minimum regulatory requirement of 11.5%. Despite lower Tier-1 capital, net NPLs as a proportion of Tier-1 capital decreased considerably to 11.0% (FY22: 19.1%) by end-1QFY23 mainly owing to lower net NPLs, an outcome of adoption of IFRS-9.

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

| <b>Financial Summary</b>                   |               | <b>(amount in PKR millions)</b> |                |                |  |
|--|---------------|---------------------------------|----------------|----------------|--|
| <b>BALANCE SHEET</b>                       | 2020          | 2021                            | 2022           | 1Q'23          |  |
| Investments                                | 68,217        | 101,788                         | 125,711        | 144,220        |  |
| Net Advances                               | 20,935        | 19,720                          | 19,421         | 18,945         |  |
| Lending to FI                              | 3,600         | 1,954                           | 5,136          | 1,021          |  |
| Cash & Balances                            | 1,533         | 1,664                           | 1,971          | 1,131          |  |
| <b>Total Assets</b>                        | <b>96,806</b> | <b>128,260</b>                  | <b>157,700</b> | <b>169,468</b> |  |
| Borrowings                                 | 70,552        | 103,997                         | 132,901        | 144,943        |  |
| Deposits                                   | 15,869        | 14,354                          | 13,521         | 14,307         |  |
| Equity (excluding surplus)                 | 8,735         | 8,757                           | 8,719          | 7,857          |  |
| <b>Net Worth</b>                           | <b>9,083</b>  | <b>8,756</b>                    | <b>8,700</b>   | <b>7,381</b>   |  |
| <b>INCOME STATEMENT</b>                    |               |                                 |                |                |  |
| Net Markup income                          | 1,549         | 1,216                           | 834            | 381            |  |
| Net Provisioning/ (reversal)               | 145           | 49                              | 172            | (148)          |  |
| Non-Markup Income                          | 671           | 218                             | 477            | 10             |  |
| Operating expenses                         | 680           | 676                             | 609            | 186            |  |
| <b>Profit/ (Loss) Before Tax</b>           | <b>1,337</b>  | <b>651</b>                      | <b>501</b>     | <b>343</b>     |  |
| <b>Profit / (Loss) After Tax</b>           | <b>972</b>    | <b>478</b>                      | <b>334</b>     | <b>230</b>     |  |
| <b>RATIO ANALYSIS</b>                      |               |                                 |                |                |  |
| Gross Infection (%)                        | 7.1%          | 9.4%                            | 11.0%          | 10.9%          |  |
| Provisioning Coverage (%)                  | 42.7%         | 39.0%                           | 38.4%          | 74.8%          |  |
| Net Infection (%)                          | 4.2%          | 5.9%                            | 7.1%           | 3.0%           |  |
| Cost of Funds                              | 9.8%          | 7.4%                            | 13.0%          | 16.9%          |  |
| Spreads                                    | 1.8%          | 0.9%                            | 0.2%           | 0.3%           |  |
| Net NPLs to Tier-1 Capital (%)             | 12.9%         | 17.6%                           | 19.1%          | 11.0%          |  |
| Capital Adequacy Ratio (CAR) (%)           | 17.2%         | 16.5%                           | 21.9%          | 18.5%          |  |
| Efficiency (%)                             | 39.9%         | 50.0%                           | 59.3%          | 47.5%          |  |
| ROAA* (%)                                  | 1.0%          | 0.4%                            | 0.2%           | 0.6%           |  |
| ROAE* (%)                                  | 11.2%         | 5.4%                            | 3.8%           | 11.5%          |  |
| Liquid Assets to Deposits & Borrowings (%) | 64.5%         | 47.4%                           | 75.8%          | 74.9%          |  |

\*Annualized

| <b>REGULATORY DISCLOSURES</b>             |   | <b>Appendix II</b>                         |                    |                       |                      |  |
|---|---|--|--------------------|-----------------------|----------------------|--|
| <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>  |  |                    |                       |                      |  |
|   | 22-Jun-23   | AA+  | A-1+               | Stable                | Reaffirmed           |  |
|   | 28-Jun-22   | AA+  | A-1+               | Stable                | Reaffirmed           |  |
|   | 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.  |  |                    |                       |                      |  |
| <b>Disclaimer</b>                         | Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2023 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS. |  |                    |                       |                      |  |
| <b>Due Diligence Meeting(s) Conducted</b> | <b>Name</b>   | <b>Designation</b>                         | <b>Date</b>        |                       |                      |  |
|   | <b>Mr. Muhammad Amin</b>  | Chief Financial Officer                    | May 22-23,<br>2023 |                       |                      |  |
|   | <b>Mr. Waqas Mehmood</b>  | Head of Risk Management                    |                    |                       |                      |  |
|   | <b>Mr. Zalmi R. Khan</b>  | Corporate Head                             |                    |                       |                      |  |
|   | <b>Mr. Tasadduq Aslam</b>   | Head of Treasury                           |                    |                       |                      |  |
|   | <b>Mr. Sajjad Arif</b>  | Head of Compliance, RAR & Special Projects |                    |                       |                      |  |
|   | <b>Mr. Abdullah Jamal</b>   | Head of Internal Audit                     |                    |                       |                      |  |
|   | <b>Mr. Rehan Ghayur</b>   | Head of Information Technology             |                    |                       |                      |  |