

RATING REPORT

National Investment Trust Limited (NIT)

REPORT DATE:

December 28, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
MQ Rating	AM1	AM1
Rating Date	Dec'28, 2023	Dec'29, 2022
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION

Incorporated in October 1962	External auditors: <u>AMC</u> – A.F. Ferguson & Co. Chartered Accountants <u>CIS</u> – A.F. Ferguson and Co. Chartered Accountants, BDO Ebrahim & Co. Chartered Accountants & Crowe Hussain Chaudhry & Co. Chartered Accountants <u>CIS/VPS</u> – Grant Thornton Anjum Rahman Chartered Accountants
Unlisted Public Company	Chairman & Managing Director: Mr. Adnan Afridi
Key Shareholders (with stake 5% or more):	Chief Operating Officer: Mr. Manzoor Ahmed
<i>Industrial Development Bank Limited ~ 16.66%</i>	
<i>MCB Bank Limited ~ 16.66%</i>	
<i>Tajammal Foundation ~ 8.33%</i>	
<i>Adamjee Foundation ~ 8.33%</i>	
<i>National Bank of Pakistan ~ 8.33%</i>	
<i>United Bank Limited ~ 8.33%</i>	
<i>Habib Bank Limited ~ 8.33%</i>	
<i>Pakistan Reinsurance Company Limited ~ 8.33%</i>	
<i>Government of Pakistan ~ 7.67%</i>	

APPLICABLE METHODOLOGY(IES)

Asset Management Companies

<https://docs.vis.com.pk/docs/AMC-Methodology-201906.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

National Investment Trust Limited

OVERVIEW
OF THE
AMC

RATING RATIONALE

National Investment Trust Limited (NIT) was incorporated in 1962 and was the first AMC in Pakistan.

Initially, it was formed to manage National Investment Unit Trust (NIUT), Pakistan's first open-end mutual fund introduced by GoP. Over the years, NIT has expanded its product line to over 14 funds including pension schemes and exchange traded funds. Head office of the AMC is located in Karachi.

External auditor of the AMC is A.F. Ferguson & Co. classified in 'A' category by State Bank of Pakistan.

Profile of Managing Director (MD)

Mr. Afridi possesses around 28 years of industry experience and

National Investment Trust Limited ('NIT' or 'the AMC') has been operating in the asset management industry for over five decades. The Company is a pioneer in mutual fund industry and is also the oldest AMC in Pakistan. Government of Pakistan (GoP) is the single largest shareholder (direct & indirect stake through various government owned entities) while other shareholders comprise private sector institutions.

Key shareholders (more than 5%)	% ownership
Industrial Development Bank Limited	16.66%
MCB Bank Limited	16.66%
Tajammal Foundation	8.33%
Adamjee Foundation (AF)	8.33%
United Bank Limited	8.33%
Habib Bank Limited,	8.33%
Pakistan Reinsurance Company Ltd	8.33%
National Bank of Pakistan	8.33%
Government of Pakistan	7.67%
Others	9.03%

Key Rating Drivers

Decline in AUMs has impacted AMC's market positioning

- Overall industry AUMs witnessed a notable growth of 28% Y/Y in FY23 while further grew by 15% during the first three months of FY24 (as at Sep'23). Compared to this, NIT AUMs registered a drop of 3% in FY23 and largely remained intact as at Sep'23.
- Resultantly, the market positioning of the AMC declined to 9th rank (from 7th as at Jun'22) as at Jun'23, while further down to 10th as at Sep'23.
- Likewise, market share also witnessed a declining trend. As end of September 2023, the AMC's market share declined to 5% (FY22: 6%, FY21: 7%).
- Market share decline is mainly driven by decline in the AMC's largest equity fund NIT Unit Trust (NIUT) closing at Rs. 41.2b (FY22 Rs. 54.6b) holding 44% of the total AUM portfolio end-FY23. This was mainly due to the declining performance of PSX during the period.

has led a distinguished career in financial services and capital markets. He holds a degree in Economics (A.B, Magna Cum Laude, 1992) from Harvard University and a degree in Corporate Law (JD, Magna Cum Laude in 1995) from Harvard Law School.

- NIT's AUM mix historically comprises of its equity fund mainly, however, given difficult macroeconomic environment and declining PSX during FY23, quantum of AUMs operating under the money market and income schemes has increased to 45% as at Jun'23 (Jun'22: 31%). The same trend has started to reverse in 1QFY24 wherein money market concentration in overall AUM inched down to 43% as at Sep'23.
- NIT AMC has also invested in its funds, worth Rs. 8.5b, constituting around 9% of the total AUMs as at Jun'23. (Jun'22: Rs. 10.6b, 11%). NIT's AUM concentration increased to 11% closing at Rs. 9.9b as of Sept'23.
- Management expects the AUMs to grow and outpace the industry growth during FY24 mainly based on an anticipated rebound in NIUT AUMs amid better equity market position.

No major change in concentration mix, top-10 investors concentration remain moderate

Table 1: Fund wise concentration in AUMs

% of AUM	Retail	Associates	Unrelated Corporates	Related Party	Top 10 Clients
Jun'22	27%	12%	48%	13%	39%
Jun'23	27%	10%	43%	21%	36%
Sept'23	30%	11%	46%	13%	36%

- Over the years, NIT has extended its product offerings in both conventional and Islamic funds as per the investors risk and return needs. However, during the review period, no new fund has been launched. Currently the AMC is offering a total product portfolio of 14 funds including two pension funds, and an ETF. The current product portfolio of NIT leaves room for improvement.
- AUMs are majorly concentrated in NIT's flagship fund NIUT, constituting around 45% of the aggregate AUMs as of Sept23 (FY22: 44%). However, the AMC's money market portfolio has increased to 28% of the aggregate AUMs (FY22: 24%). Increase in the AMC's money market portfolio is primarily attributable to notable growth in NIT Money Market Fund (NITMMF). NITMMF registered around 49% growth in terms of fund size closing at Rs. 27b end-FY23 (FY22 18.5b).
- With no major change in the AMC's client concentration mix, retail and corporate investments, together constitute for over 3/4th of the total portfolio. While retail investors marginally increased to 30% end-Sept'23, corporate investments increased to 46% during the same period.
- Top-10 investor concentration of the AMC during the year remains high at 36% of the overall AUMs constituting at end Sept 23 (FY22: 39%) when compared to peers.

- At present, there is no SMA fund portfolio AUMs, previously, the AMC managed SMA portfolio for one client amounting Rs. 76.6b (FY21: Rs. 59.5b) during FY22.

Ratings incorporate long term fund performance and rankings

- Fund performance is largely impacted by the AMC's flagship equity fund NIUT. During the year, NIUT was placed in the 4th quartile essentially owing to under performance since the preceding year as also its rankings plunged to 24th out of 26 funds in the category (FY22: 6 out of 26).
- End-June'23, performance of remaining funds also depicted deterioration as over 49% of NIT's total AUMs were deployed in the 1st quartile and 2nd quartile (FY'22: 93% AUMs). Remaining 2% of the AUMs were placed in the 3rd quartile during FY23.

Return against Benchmark		FY22			FY23		
		YTD	Benchmark	Ranking	YTD	Benchmark	Ranking
National Investment Unit Trust Fund	NIUT	11.8%	-12.3%	6 out of 26	-16.04%	-0.21%	24 out of 26
NIT Islamic Equity Fund	NIT IEF	18.3%	-10.3%	10 out of 19	-2.66%	2.88%	10 out of 19
NIT Government Bond Fund	NIT GBF	9.3%	5.0%	16 out of 30	16.26%	18.14%	2 out of 9
NIT Income Fund	NIT IF	10.6%	10.8%	4 out of 30	17.10%	18.33%	12 out of 24
NIT Islamic Income Fund	NIT IIF	9.7%	3.3%	4 out of 21	16.54%	6.05%	7 out of 23
NIT Social Impact Fund	NIT SIF	14.9%	15.2%	1 out of 31	18.60%	18.33%	4 out of 24
NIT Money Market Fund	NIT MMF	10.8%	9.3%	9 out of 21	17.98%	17.01%	2 out of 24
NIT Islamic Money Market Fund	NIT IMMF	10.2%	3.8%	2 out of 15	16.95%	6.23%	6 out of 17
NIT Asset Allocation Fund	NIT AAF	-5.7%	1.0%	4 out of 12	8.23%	12.57%	5 out of 13
NIT Pakistan Gateway ETF	NIT PG ETF	-12.6%	-11.0%	NA	9.55%	10.85%	NA

Business and Financial Risk profile of the AMC

- NIT's recurring revenue consists of management fee, investment advisory fee, dividend income, share profit from associates and return on bank balances. During FY23, management fees declined by 9% while overall revenues declined by 5%. However, with higher dividend income, share profit from associates and return on bank balances, total recurring income of the AMC has increased by 9% Y/Y.

- On the other hand, operating expenses also grew on the same pace which resulted in operational efficiency (cost to income ratio) to stay intact at 51% in FY23 (FY22: 50%).
- The AMC's financial risk profile is considered sound as the Company has a debt free balance sheet. Liquidity profile also continues to remain sound as 96% of the asset base comprises of liquid investments, which are mainly invested in NIT's own funds.

Ratings also factor in NIT's adequate levels of corporate governance, physical outreach and experienced management

- NIT has an extensive branch network comprising 27 branches spread nationwide including an investors' facilitation center and a customer care call center located in Karachi. Region-wise investment break-up depicts concentration in three regions comprising Sindh, Punjab and Federal Capital Territory. Going forward, as per management the AMC has planned to open 3 to 5 more branches in the next 5 year horizon.
- The AMC has an organized sales team of 74 employees, with consistent additions planned going forward. The Company's SMA portfolio was observed to be not so economically viable due to managing a single client portfolio leaving the SMA department head position vacant. As per management, the Company is in the process of appointing a new sales team head along with a new team for the SMA portfolio to cater new clients.
- NIT has its web portal and mobile application (both android & ios) in place for smooth account opening and investment & redemption processing. In Order to facilitate clients and prospects, NIT has also extended its reach through social media platforms like Facebook, LinkedIn, Instagram, etc. During the year the Company has also started digital onboarding of its clients.
- A well-defined framework to evaluate investment prospects is in place where in every fund has separate Investment Committee consisting of 7-8 members including fund manager and a person from each research, risk and compliance departments along with MD, COO and CFO. All members in the IC committees are voting members. Frequency of IC meetings is on as and when required basis.
- Currently, Board of directors comprises 11 members representing all major sponsors. During FY23, Pak Reinsurance Company Limited nominated Mr. Farmanullah Zarkoon. Barring CEO/MD, all other directors are non-executive. NIT has three Board Committees in place namely, Audit Committee (AC), Human Resource & Remuneration Committee (HRRC) and Risk Management Committee (RMC).
- Internal control functions include Internal Audit, Compliance and Risk Management. In line with CG best practices Internal Audit functionally reports to the Board Audit Committee.

FINANCIAL SUMMARY					Appendix I
National Investment Unit Trust Fund (NIUT)	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	50,300	64,861	54,679	42,231	41,464
Return (%)	6.38%	37.14%	-11.84%	-16.04%	6.30%
Benchmark (%)	1.53%	37.58%	-12.28%	-0.21%	11.53%
Retail Proportion (% of Net assets)	38.60%	37.90%	34.94%	32.29%	32.44%
Ranking Against Peers	2 out of 24	13 out of 27	6 out of 26	24 out of 26	17 out of 26
NIT – Islamic Equity Fund (NIT IEF)	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	2,961	3,380	2,574	2,083	2,198
Return (%)	2.78%	33.33%	-18.31%	-2.66%	9.95%
Benchmark (%)	1.62%	39.32%	-10.25%	2.88%	9.78%
Retail Proportion (% of Net assets)	37.20%	34.10%	32.39%	30.53%	30.52%
Ranking Against Peers	6 out of 15	11 out of 18	10 out of 19	10 out of 19	11 out of 20
NIT – Income Fund (NIT IF)	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	3,761	3,672	3,716	2,431	2,440
Return (%)	12.58%	6.37%	10.64%	17.10%	21.82%
Benchmark (%)	12.22%	7.43%	10.81%	18.33%	23.21%
Retail Proportion (% of Net assets)	12.40%	12.60%	12.62%	16.70%	17.59%
Ranking Against Peers	12 out of 19	16 out of 31	4 out of 30	12 out of 24	14 out of 25
NIT – Islamic Income Fund (NIT IIF)	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	990	818	830	828	949
Return (%)	10.44%	6.32%	9.67%	16.54%	19.45%
Benchmark (%)	6.33%	3.56%	3.34%	6.05%	7.60%
Retail Proportion (% of Net assets)	65.50%	64.70%	70.46%	65.34%	66.11%
Ranking Against Peers	15 out of 21	9 out of 21	4 out of 21	7 out of 23	11 out of 27
NIT – Money Market Fund (NIT MMF)	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	4,824	12,304	18,583	27,745	26,120
Return (%)	12.51%	6.80%	10.79%	17.98%	21.34%
Benchmark (%)	11.64%	6.70%	9.28%	17.01%	21.92%
Retail Proportion (% of Net assets)	29.30%	16.00%	19.68%	24.95%	33.60%
Ranking Against Peers	14 out of 19	16 out of 21	9 out of 21	2 out of 24	2 out of 24
NIT – Government Bond Fund (NIT GBF)	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	4,355	3,417	3,008	1,918	1,766
Return (%)	16.04%	4.99%	9.32%	16.26%	20.26%
Benchmark (%)	12.07%	7.28%	10.67%	18.14%	23.04%
Retail Proportion (% of Net assets)	17.10%	12.90%	11.74%	16.01%	15.94%
Ranking Against Peers	7 out of 14	24 out of 31	16 out of 30	2 out of 9	5 out of 10
NIT – Asset Allocation Fund (NIT AAF) (Launched in April 2020)	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	524	668	564	477	515
Return (%)	2.12%	20.78%	-5.69%	8.23%	9.77%
Benchmark (%)	3.09%	24.36%	1.01%	12.57%	9.10%
Retail Proportion (% of Net assets)	11.70%	18.10%	17.18%	8.18%	6.20%
Ranking Against Peers	5 out of 12	6 out of 14	4 out of 12	5 out of 13	5 out of 13
NIT – Social Impact Fund (NIT SIF) (Launched in May 2022)	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	NA	NA	735	1,007	1,210
Return (%)	NA	NA	14.93%	18.60%	21.88%
Benchmark (%)	NA	NA	15.22%	18.33%	23.21%

Retail Proportion (% of Net assets)	NA	NA	6.92%	30.09%	37.96%
Ranking Against Peers	NA	NA	2 out of 33	4 out of 24	8 out of 25
<u>NIT – Islamic Money Market Fund (NIT IMMF)</u>					
<i>(Launched in September 2023)</i>	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	NA	NA	2,604	7,486	7,346
Return (%)	NA	NA	10.23%	16.95%	19.96%
Benchmark (%)	NA	NA	3.78%	6.23%	8.34%
Retail Proportion (% of Net assets)	NA	NA	26.97%	34.97%	37.50%
Ranking Against Peers	NA	NA	16 out of 17	6 out of 17	16 out of 22
<u>NIT – Pakistan Gateway Exchange Traded Fund (NIT PGETF)</u>					
<i>(Launched in March 2020)</i>	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	50	53	38	37	41
Return (%)	7.21%	19.71%	-12.56%	9.55%	12.08%
Benchmark (%)	8.76%	24.10%	-11.00%	10.85%	12.51%
<u>NIT – Equity Market Opportunity Fund (NIT EMOF)</u>					
	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	NA	NA	NA	5,603	6,268
<u>NIT – State Enterprise Fund (NIT SEF)</u>					
	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	NA	NA	NA	1,080	1,295
<u>NIT – Pension Fund (NIT PF)</u>					
	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	440	496	546	625	676
<u>NIT – Islamic Pension Fund (NIT IPF)</u>					
	FY20	FY21	FY22	FY23	1QFY24
Fund Size (in Rs. millions)	361	402	383	412	456

FINANCIAL SUMMARY (Rs. in millions)		Appendix II		
BALANCE SHEET	FY20	FY21	FY22	FY23
Paid Up Capital	95	95	95	95
Total Equity	10,286	12,039	10,556	8,403
INCOME STATEMENT				
Total income	1,616	1,765	1,680	1,832
Profit Before Tax	1,099	2,882	723	896
Profit After Tax	566	2439	557	446
RATIO ANALYSIS				
Net Cash Generated from Operating Activities	173	(71)	165	(191)
Current Ratio (x)	0.43	11.67	9.47	6.31
Gearing (x)	0.02	0.02	0.02	0.01

REGULATORY DISCLOSURE		Appendix III		
Name of Rated Entity	National Investment Trust Limited			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	Rating Date	Medium to Long Term	Outlook	Rating Action
	12/28/2023	AM1	Stable	Reaffirmed
	12/29/2022	AM1	Stable	Reaffirmed
	12/30/2021	AM1	Stable	Initial
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 Management quality only and is not a recommendation to buy or sell any securities.			
Probability of Default	N/A			
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Due Diligence Meeting Conducted	Name	Designation	Date	
	Mr. Aamir Amin	CFO	27 Nov, 2023	
	Mr. Mati Uddin Siddiqui	Head of Accounts		
	Mr. Abdul Majid	AVP Marketing		
	Mr. Murtaza Hassan	Acting Head of Saless		
	Mr. Faisal Aslam	Head of Compliance		
Mr. Salman Chawla	Head of Corporate Governance			