RATING REPORT

Arif Habib Equity Private Limited

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS		
	Entity Rating	
Rating Category	Long-term	Short-term
Entity	AA-	A-1
Rating Outlook	Stable	
Rating Date	December 31, 2018	

COMPANY INFORMATION	
Incorporated in 2004	**External auditors:** Naveed Zafar Ashfaq Jaffery &Co.
Private Limited Company	**Chairman of the Company:** Arif Habib
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Abdus Samad
Mr. Arif Habib – 99.9%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (May, 2016) http://www.jcrvis.com.pk/kc-meth.aspx

Arif Habib Equity Private Limited (AHEPL)

OVERVIEW OF THE INSTITUTION

Arif Habib Equity Private Limited was incorporated in Pakistan on 18th May 2004 under companies' ordinance, 1984. Registered office of the company is located in Karachi, Pakistan

Profile of Chairman

Mr. Arif Habib is a veteran businessman and is CEO of Arif Habib Corporation Limited, director of Pakarab Energy Limited and Chairman of PFL, Aisha Steel Mills Limited and Javedan Corporation Limited.

RATING RATIONALE

Arif Habib Equity Private Limited (AHEPL) was incorporated as a private limited company on 18th May'2004. It was formed as an investment holding company by way of acquiring interest in group and non-group companies with the aim of increasing shareholder value by a stream of dividends and realizing capital gains. Mr. Arif Habib is the majority shareholder of the company holding 99.99% stake.

Balance Sheet Snapshot

Total asset base of the Company was reported at Rs. 12.6b (FY17: Rs. 14b). Investments (at market value) carried on balance sheet represent around 83% of total assets at end-FY18 and are in listed companies. Around 69% of the investments are long-term in nature with the remaining comprising short-term investments in a fertilizer sector company. Other major assets held on balance sheet include loan to an associate company (Rs. 500m to Pak Arab Fertilizer) and investment in plots in Naya Nazimbad which have been liquidated and cash has been realized in the ongoing year. Asset base has almost entirely been funded through equity while no interest bearing bank borrowings have been mobilized. As at end-June'2018, total contingent liabilities stood at over Rs. 20b.

Investment Portfolio

Investment portfolio of the company (at market value) amounted to Rs. 10.5b (FY17: Rs. 11.9b). Despite subscription of right shares of Javedan Corporation Limited (JCL) to the tune of Rs. 1.1b during FY18, decline in investment portfolio is attributable to lower market values in line with dip in the benchmark index. Investment portfolio comprises the following investments

Company Name	**Fair Value (Rs. in m)**	**Holding (%)**
Aisha Steel Mills - Ordinary Shares	4,126	33.29
Aisha Steel Mills - Preference Shares	175	
Javedan Corporation	2,743	28.69
Power Cement	1,735	19.54
Fatima Fertilizers Limited	1,763	2.59
Total	**10,542**	

Performance of Investments

Aisha Steel Mills Limited

Aisha Steel Mills Limited (ASML) is a listed entity incorporated in 2005 to manufacture cold rolled steel in coils and sheets. The existing production capacity of ASML is 220,000 MT per annum and the Company is undergoing expansion to increase its installed capacity to 700,000 MT per annum. The company posted significant growth in profit before tax due to high capacity utilization and improved pricing power in FY18. However, profitability is expected to come under pressure in FY19 on the back of lower off-take in line with slow-down in GDP growth, pressure on margins given increased dumping and significantly higher finance cost with sizeable jump in interest rates due to leveraged capital structure. ASML has been assigned a credit rating of A-/A-2 (Single A Minus/A-Two).

Rs. in m	FY17	FY18	1QFY19
Net Sales	14,076	18,904	3,090
Gross Margin	15%	18%	16%
PBT	882	1,916	156
Net Margin	7.2%	6.8%	3.9%
FFO*	1,421	2,018	1,072
FFO/Total Debt	18%	19%	7%
Gearing	1.41	1.51	2.16
Dividend Payout %	0%	0%	0%
Total Equity	5,476	6,933	7,065

**Annualized*

Javedan Corporation Limited

Javedan Corporation Limited (JCL) is in the process of development of "Naya Nazimabad" (NN) project. NN is a housing scheme targeting the progressive middle class segment of the society which is spread over 1,366 acres of land. The project includes bungalows, open plots, flat and commercial sites, apartments, malls, shopping centers etc. The first phase of NN was launched in the year 2011 spread over 513 acres of land and subsequently launched 78 acres in 2015. Major portion of inventory of Phase-1 has been sold while the management plans to launch the Commercial Area of approx. 60 acres during the 3rd quarter of the ongoing calendar year. Financial risk profile is strong as evident from low leveraged capital structure, hidden reserves on balance sheet and adequate cash flow profile. Cash flow requirements are expected to remain elevated for funding of development and construction expenditure of commercial area of the project is planned to be met through booking receipts. JCL has been assigned an entity rating of 'A+/A-1' (Single A Plus/A-One).

Rs. in m	FY17	FY18	1QFY19
Net Sales	2,468	2,479	403
Gross Margin	76%	56%	51%
PBT	1,493	1,100	126
Net Margin	44.4%	28.4%	23.3%
FFO*	1,383	912	182
FFO/Total Debt	50%	25%	5%
Gearing	0.77	0.45	0.48
Dividend Payout %	45%	27%	0%
Total Equity	3,629	8,033	8,169

**Annualized*

Power Cement Limited

Power Cement Limited (PCL) currently operates with Line 1 and Line 2 and is in the process of adding Line 3. Total rated capacity of Line 1 and Line 2 is 0.9m tons per annum. With the completion of Line 3 (7,700 tons per day), rated capacity for cement production is expected to reach around 3.4m tons per annum. Weakening in industry dynamics due to slow-down in economic growth, increase in interest rates and delay in infrastructure projects has impacted projected demand growth in short-term. Over the medium term, pick-up in demand growth along with enhanced capacity is expected to position the company to capture a higher stake in cement consumption growth expected to emanate from construction of dams and housing units. PCL has been assigned a credit rating of A-/A-2 (Single A Minus/A-Two).

Rs. in m	FY17	FY18	1QFY19
Net Sales	4,481	4,343	892
Gross Margin	22%	16%	9%
PBT	565	349	(60)
Net Margin	10.4%	7.4%	1.2%
FFO*	179	89	111
FFO/Total Debt	12%	1%	0.76%
Gearing	0.17	0.94	1.30
Dividend Payout %	-	-	-

Total Equity	8,394	11,299	11,310

**Annualized*

Fatima Fertilizer Limited

Fatima Fertilizer Limited (Fatima) was established as public limited company in 2003 to undertake manufacturing and selling of fertilizers. Currently the company has a production capacity of 500,000 MT for urea, 420,000 MT for CAN and 360,000 MT for NP. Over the last few years, revenues and margins of the Company have remained healthy. Despite significant increase in fertilizer prices, off-take for the Company has remained robust during 10MCY18 due to improved crop prices. While margins may come under pressure given the government's focus on improving farmer's economic health, overall cash flows and dividend payout are expected to remain strong. Fatima has been assigned a credit rating of AA-/A-1 (Double A Minus/A-One).

Rs. in m	CY16	CY17	9MCY18
Net Sales	33,764	37,611	34,511
Gross Margin	53.3%	54.1%	60.2%
PBT	11,626.5	12,736.0	14,511.0
Net Margin	29.0%	28.1%	27.4%
FFO*	12,784	12,346	18,992
FFO/Total Debt	43%	68%	128%
Gearing	0.63	0.34	0.25
Dividend Payout %	69.8%	44.7%	49.5%
Total Equity	47,374.0	53,741.0	58,455.0

**Annualized*

Siddiqsons Energy Limited

AHEPL is acquiring 19% stake in Siddiqsons Energy Limited (SEL) which has been incorporated to set up a 330 MW Thar coal fired power plant in Pakistan. Besides AHEPL, other sponsors of the Company include Engro Energy Limited and Siddiqsons Group. The project has been awarded a levelized tariff of Rs. 7.7023/Kwh while financial close is targeted in 1QCY19. Equity injection for the same will be spread over a 3 year period. Investment in SEL incorporates government guaranteed USD denominated return and is considered low business risk given limited demand risk due to take or pay tariff awarded and 30 year PPA with CPPA. Moreover, interest rate and coal price increase is already covered as per cost pass through mechanism built in the tariff.

Profitability

The company posted a profit before tax of Rs. 257.1m during FY18 vis-à-vis Rs. 1.6b last year. The decline in profitability is attributable to capital gains of Rs. 1.5b during FY17 vis-à-vis no capital gains earned during FY18. Recurring dividend income amounted to Rs. 250.1m (FY17: Rs. 108.8m) during FY18. Increase was on account of higher dividend income from JCL. Other revenue sources including mark-up on loan to associate. Expense base of the company is very low (primarily comprises salaries of senior management personnel) with resource sharing arrangement in place with group companies. Accounting for finance cost (on loan from sponsors) and taxes, AHEPL posted profit after tax of Rs. 228.4m (FY17: Rs. 1.4b).

Rating Drivers

Strong sponsor profile

The assigned rating to AHEPL is underpinned by financial profile and demonstrated track record of support of the Company's major sponsor. The support is reflected in funding support provided by sponsors in the past. JCR-VIS anticipates support from sponsors for AHEPL, if needed.

Diversified investment portfolio

Investment portfolio of AHEPL is diversified with investments in cement, steel, real-estate, fertilizer and plans of venturing in the power sector. Cyclicality in cement and steel sectors is expected to be off-set by stable business risk profile of fertilizer and real-estate investment. Investments have been undertaken from a long-term perspective given the country's low per capita cement and steel consumption, deficit of affordable housing units and significant infrastructure investments (dams etc.) projected over the long term.

Dividend stream expected to witness limited growth from current levels over the rating horizon. Recurring dividend inflows reflect limited debt repayment capacity in case of debt drawdown

Barring 2015, Fatima has historically maintained a consistent dividend payout history and given the projected growth in profitability dividend income from the same is expected to be higher. ASML, PCL and JVDC are currently in growth phase and already undergoing or expected to commence expansion (JCL expected to launch commercial area in 1Q19 and will be funded by customer advances). Resultantly, overall dividend inflow from investments is expected to witness limited growth from current levels. Dividend income from SEL (expected to commence from 2022) will provide further stability and support to cash flows.

Leverage free balance sheet

AHEPL had no external debt on balance sheet. As at end-June'2018, loan from sponsor to the tune of Rs. 1.07b (markup rate 12.5%) had been mobilized which has been repaid in FY19 from funds received from sale of land. Ratings also derive support from quantum of liquid investments on balance sheet; these are however exposed to market risk. Ratings incorporate management's commitment to not mobilize any bank borrowings while future funding requirements for new investments or for meeting any contingent liabilities will be undertaken through equity injection.

FINANCIAL SUMMARY *(amounts in PKR millions)*			
	FY16	FY17	FY18
Operating Revenue	14	1,644	414
Dividend Income	-	109	250
Net Profit	10	1,400	228
Long Term Investments	4,757	10,036	8,780
Investment Properties	1,250	1,250	-
Total Assets	8,633	14,200	12,653
Loans From Sponsor	470	945	1,078
Total Liabilities	576	1,482	1,908
Total Equity	8,056	12,718	10,746

ISSUE/ISSUER RATING SCALE & DEFINITION — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 II
Name of Rated Entity	Arif Habib Equity Private Limited
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
12/31/2018	AA-	A-1	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	JCR-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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