

RATING REPORT

Shirazi Investments (Private) Limited

REPORT DATE:

January 11, 2022

RATING ANALYST:

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RATING DETAILS

Rating Category	Initial Ratings	
	Long-term	Short-term
Entity	AA	A-1
Rating Outlook	Stable	
Rating Date	January 11, 2022	

COMPANY INFORMATION

Incorporated in 1962	External auditors: EY Ford Rhodes Chartered Accountants
Private Limited Company	Chairman: Mr. Iftikhar H. Shirazi
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Noorullah R. Hassan
<i>Iftikhar Shirazi Family Trust ~25%</i>	
<i>Aamir H. Shirazi ~25%</i>	
<i>Saquib H. Shirazi ~25%</i>	
<i>Ali H. Shirazi ~25%</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

Shirazi Investments (Private) Limited

OVERVIEW
OF THE
INSTITUTION

RATING RATIONALE

SIL was incorporated in August, 1962 as a private limited company with principal business activity to hold and manage investments in other group companies. The Company has a registered office in Karachi along with two regional offices located in Lahore and Islamabad.

Profile of Chairman

Mr. Iftikhar H. Shirazi graduated with a Bachelor of Science in Finance from Notre Dame De Namur University, and completed his OPM from Harvard Business School, USA. He has over 35 years of corporate management experience, more particularly in the financial and trading sectors. Previously, he was associated with Bank of Tokyo-Mitsubishi, Yamaichi Securities and Toyota Tsusbo Corporation.

Profile of CEO

Mr. Noorullah has over 30 years of management experience and has been associated with Atlas Group since 1992. He holds Bachelor of Commerce degree from University

Corporate Profile

Incorporated in 1962, Shirazi Investments (Private) Limited (SIL) is a holding company with a diversified business profile and investments in various sectors including manufacturing, power generation, trading and financial services. Cumulatively, the group of companies is referred as 'The Atlas Group'. The Group being one of the top ten business groups in Pakistan has a long established history of nearly six decades. At present, the Group has investments in total 17 companies with a cumulative annual turnover of approx. Rs. 300b. Shareholding of the Company is vested among members of the Shirazi Family. Headquartered in Karachi, the Company has two regional offices located in Lahore and Islamabad. Total staff strength of the SIL currently stands at 92 employees.

Long-term Strategic Investment Portfolio

SIL's long-term strategic investment portfolio represents around three-fourth of total asset base, comprising investments in 13 subsidiaries/sub-Subsidiaries and 4 associates. The 13 subsidiaries/sub-subsidiaries include 3 listed and 10 unlisted companies while 4 associates include 1 listed and 3 unlisted entities. Presently, around 80% of the portfolio is represented by 2 subsidiaries (Atlas Honda Limited and Atlas Power Limited) and 1 associate company (Honda Atlas Cars Pakistan Limited). Total long-term investments increased to Rs. 40.0b (FY20: Rs. 32.7b; FY19: Rs. 29.9b) at end-FY21 mainly on account of fair value adjustment of Rs. 6.6b in an associate investment, Honda Atlas Cars Pakistan Limited.

Sizeable Proprietary Book

SIL is also actively involved in trading of and investments in equity securities and maintains a proprietary book of Rs. 11.8b (FY20: Rs. 8.3; FY19: Rs. 7.2b) as at end-FY21. Around 44% of the short-term investments portfolio is represented by equity investments (which stands at 10% in relation to equity with sizeable deployment in blue chip scrips) while the remaining comprises investments in a related party mutual funds (mainly in income and equity funds).

Earning profile is largely reliant on dividend income from investments.

The Company drives its major revenues in the form of dividends from subsidiaries/sub-subsidiaries and associates along with rental income. Other revenues sources include service income, capital gain on sale of investments and income from loans, advances and bank balances.

Overall dividend income remained impacted during the period FY19 and FY20 given less or no dividend contribution from some subsidiary/associate investments due to their cyclical nature of business and dividend conservation policy of the sponsors. Nevertheless, in the outgoing fiscal year, dividend inflows registered a strong growth of ~43% and were reported at Rs. 2.9b (FY20: Rs. 2.0b; FY19: Rs. 4.1b). Over past three fiscal years, major revenue contribution in the form of dividend income specifically with less volatile trend has been from Atlas Honda Limited and Atlas Insurance. As per management, in consideration of progressive projections, dividend income is expected to witness growth in the coming years.

of Karachi and certifications ICMA and CIMA. He has also completed the Program for Management Development (PMD) from Harvard Business School.

Dividend income (Rs. in millions)	FY18	FY19	FY20	FY21
Atlas Autos Private Limited	100.0	1,000.0	-	300.0
Atlas Power	1,704.3	501.3	-	-
Atlas Insurance	343.5	370.0	407.0	447.7
Atlas Honda Limited	1,464.0	1,084.4	976.0	1,138.6
Atlas Battery Limited	358.5	102.4	-	143.4
Honda Atlas Cars	1,161.2	523.9	-	238.0
Atlas Income Fund	-	277.0	303.9	130.5
Others	128.8	1,215.0	757.5	524.4
Total	5,260.2	4,074.0	2,037.4	2,922.6

Rental income has also depicted volatility on a timeline basis. The same decreased to Rs. 146.4m (FY20: Rs. 271.8m) in FY21 due to sale of land to a related party. Going forward, the management expects healthy growth from this division on account of envisaged future business plans in real estate and warehousing segment.

Rental Income (Rs. in millions)	FY18	FY19	FY20	FY21
Warehouse building-on freehold land	190.2	145.4	156.9	50.3
Warehouse building-on leasehold land	132.1	89.4	63.1	68.7
Building - leasehold	42.3	49.9	51.8	27.3
Total Rental Income	364.5	284.7	271.8	146.4

Operating overheads primarily includes the salaries expense followed by depreciation and insurance fees. Finance cost incurred has reduced by almost half in the outgoing fiscal year given the significant decline in utilization of running finance. Furthermore, gain on re-measurement of investments and impairment reversal also supported the profitability profile. This along with strong topline growth doubled the bottom-line profitability of the Company.

Ratings incorporate SIL's strong balance sheet and capitalization levels, elements that provide financial flexibility.

Sizeable internal capital generation continue to reinforce capital buffers (Net Equity: FY20: Rs. 52.7b; FY19: Rs. 41.6b; FY18: Rs. 38.0b). Dividend payout ratio was reported at 29.2% (FY20: 42.3%) in FY21. At present, debt profile is very limited and amounts to Rs. 1.6b (FY20: Rs. 2.9b); of which ~78% constitutes short-term debt. Total running finance arrangement from various banks accumulates to Rs. 4.7b; of which Rs. 3.4b remains un-utilized as at end-FY21. Long term loan mobilized include only concessionary rate financing under SBP borrowing scheme for payment of wages and salaries due to pandemic.

Experienced management team. Overall group level governance and internal control framework is considered strong.

Board of Directors (BoD) comprises five members of the Shirazi family who are also the shareholders. The Board is chaired by Mr. Iftikhar H. Shirazi who is a seasoned professional with cumulative experience of over 35 years of corporate management particularly in financial and trading sectors. At group level, there are four board committees including Group Advisory Board, Group Executive Committee, Group HR Committee and Group IT Committee. Alongside, Management Committee and Investment Committee are also in place. Presently, five board meetings are convened during the year while scopes of these meetings largely pertain to approval of financial statements, budgeting, policy related issues, strategic decision making for investment of

excess liquidity and monitoring of group business plans. Room for improvement exists in terms of board size for enhanced governance.

SIL has in place a qualified senior management team with extensive experience. The Company has deployed fully integrated Oracle system to meet its IT related needs. An in-house centralized audit function named as Sustainability Review Team is also in place and reports directly to the BoD. Financial statements are audited by EY Ford Rhodes Chartered Accountants, which is classified in 'Category A' of SBP's Panel of Auditors.

Shirazi Investments (Private) Limited
Appendix I

FINANCIAL SUMMARY				
<i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	FY18	FY19	FY20	FY21
Long Term Investments	36,759.6	29,959.2	32,676.0	40,009.8
Investment Property	2,262.6	2,637.6	2,564.5	2,195.2
Short Term Investments	7,885.8	7,219.0	8,279.4	11,780.4
Bank Balances	84.3	10.5	1.9	4.0
Prepayments & Other Receivables	121.9	286.6	717.9	375.6
Total Assets	47,291.2	40,402.3	45,344.8	55,063.7
Trade and Other Payables	137.9	61.9	61.8	123.6
Long Term Loan <i>(including current portion)</i>	-	-	374.0	356.8
Short Term Borrowings	-	2,159.6	2,600.9	1,234.8
Total Interest Bearing Debt	-	2,159.6	2,974.9	1,591.6
Total Liabilities	604.7	2,389.8	3,707.5	2,356.5
Paid -up Capital	2,201.1	2,201.1	2,201.1	2,201.1
Share premium	26,839.7	26,839.7	26,839.7	26,839.7
Amalgamation reserve	1,222.6	1,222.6	1,222.6	1,222.6
Unappropriated profit	14,028.5	13,523.8	14,571.4	17,048.2
Unrealized gain/(loss) on revaluation of investments	2,394.4	(5,774.7)	(3,197.4)	5,395.6
Total Equity	46,686.4	38,012.5	41,637.4	52,707.2
<u>INCOME STATEMENT</u>				
Dividend Income	5,260.2	4,074.0	2,037.4	2,922.6
Rental Income	364.5	284.7	271.8	146.4
Administrative Expenses	(689.4)	(767.1)	(683.5)	(679.3)
Finance Cost	(16.8)	(192.2)	(353.9)	(188.1)
Other Operating Expense				
Profit / (Loss) Before Tax	4,908.2	428.4	2,068.3	3,962.4
Taxation	(933.9)	(428.4)	(292.5)	(536.0)
Profit / (Loss) After Tax	3,974.3	0.1	1,775.9	3,426.4
<u>RATIO ANALYSIS</u>				
Gearing (x)	-	0.1	0.1	0.0
Debt Leverage (x)	0.0	0.1	0.1	0.0
Current Ratio (x)	15.8	3.3	2.8	7.8

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 moderate 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

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

(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

'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			
Name of Rated Entity	Shirazi Investments (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
	RATING TYPE: ENTITY				
	11/01/2022	AA	A-1	Stable	Initial
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.				
Probability of Default	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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Due Diligence Meeting Conducted	Name	Designation	Date		
	Mr. Noorullah R. Hassan	CEO	Nov 1, 2021		