

RATING REPORT

Shirazi Investments (Private) Limited

REPORT DATE:

January 24, 2024

RATING ANALYST:

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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 Action	Upgrade		Reaffirmed	
Rating Date	January 24, 2024		February 03, 2023	

COMPANY INFORMATION

Incorporated in 1962	External auditors: ShineWing Hameed Chaudhri & Co.-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

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

VIS Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.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 three regional offices located in Lahore, Multan 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 37 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 31 years of management experience and has been associated with Atlas Group since 1992. He holds

Corporate Profile

Incorporated in 1962, Shirazi Investments (Private) Limited ('SIL' or the 'Company') is a holding company with a diversified business profile and investments in various sectors including automotive, power generation, trading and financial services. The Company has exposure in group companies as well as non-group companies with the former comprising 76.6% (Jun'22: 80%; Jun'21: 84%) of the total asset base at end-June'23. Cumulatively, the group of companies are referred as 'The Atlas Group'. The Group stands amongst one of the top ten business groups in Pakistan and has a long established history of over six decades. At end-June'23, the Atlas Group had investments in total 15 companies, out of which four are quoted on the Stock Exchanges in Pakistan. The shareholding of the Company is vested among members of the Shirazi Family. Headquartered in Karachi, the Company has three regional offices located in Lahore, Multan and Islamabad. Total staff strength of the SIL stood at 90 employees at end-June'23.

Key Rating Drivers

Ratings assessment takes into account cyclical trends in the automotive industry, a major source of nearly half the company's dividend income. Pakistan's automobile industry experienced significant challenges emanating from PKR devaluation, import restrictions, higher taxes and inflation, a decline in worker remittances, global supply chain disruptions, and elevated interest rates. In terms of production units, the total number of passenger cars produced declined by nearly 55% to 101,984 units in FY23 from 226,433 units in FY22, with the 5MFY24 figure standing at 24,132 units. Meanwhile, the overall volume of passenger cars sold dropped by ~58% to 96,811 units in FY23 from 234,180 units in FY22, and the 5MFY24 figure currently stands at 25,746 units. The market share distribution among major brands experienced significant fluctuations. Suzuki, despite a decrease in production and sales units from the previous fiscal year, maintained a dominant position, holding a 63.6% sales market share in FY23.

Honda Cars experienced a significant reduction in production and sales, as represented by its Civic and City models. Production plummeted by approximately 64%, decreasing from 35,079 units in FY22 to just 12,801 units in FY23. Sales also followed a downward trend, dropping from 35,197 units in FY22 to 12,823 units in FY23. Despite this decline, Honda Cars managed to maintain its market share at 13.2% in FY23.

Similarly, the motorcycle industry has observed a reduction in production and sales trends across major brands. Nevertheless, Honda remains a dominant player, consistently maintaining a substantial market share. In terms of production units, Honda produced

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

1,003,134 motorcycles in FY23, witnessing a decline from 1,362,790 in FY22. Sales mirrored its production trends, with a decline in sales from 1,360,403 in FY22 to 1,005,408 in FY23. Despite a drop in sales, Honda maintained a significant market presence, retaining an 86.2% share in FY23, which further increased to 88.1% in the initial five months of FY24.

Going forward, sluggish economy, record high interest rates, decline in consumer’s disposable’ income given high inflation and substantial increase in auto prices would keep auto sales subdued in FY24. For the sustainable growth and revival of the automotive industry, an overall recovery in macroeconomic factors and the establishment of political stability are essential. These foundational improvements are critical for the long-term viability and expansion of the sector.

Table 1: PAMA - Pakistan Automotive Manufacturers Association Industry Sales

Passenger Car				
Brand	FY21	FY22	FY23	5MFY23
Honda Cars (Civic & City)	25,276	35,197	12,823	3,151
Toyota Corolla & Yaris	46,650	56,528	18,838	4,725
Suzuki	78,401	136,049	61,554	17,042
Hyundai Elantra	855	3,610	2,162	426
Hyundai Sonata	-	2,782	1,433	402
BAIC D20	-	14	1	-
Total Cars Sold	151,182	234,180	96,811	25,746
Motorcycle				
Brand	FY21	FY22	FY23	5MFY23
Honda	1,292,096	1,360,403	1,005,408	398,303
Suzuki	24,851	37,846	29,274	6,023
YAMAHA	19,924	23,289	13,217	3,896
Road Prince Motorcycle	141,230	89,900	27,690	6,974
United Auto Motorcycle	368,643	265,677	91,347	36,807
Total Motorcycle Sold	1,846,744	1,777,115	1,166,936	452,003

Source: Pakistan Automotive Manufacturers Association (PAMA)

A significant portion of the asset base is represented by the investment portfolio in both group and non-group companies.

Long-term Investments Portfolio (Rs. in million)				
Subsidiaries/Sub-Subsidiaries				
<i>Unlisted Shares</i>	FY22	% FY22	FY23	%FY23
Atlas Engineering (Private) Limited	387.7	1.1%	387.7	1.3%
Atlas Energy Limited	73.3	0.2%	73.3	0.2%
Atlas Power Limited	5,671.2	16.6%	5,671.2	19.0%
Atlas Asset Management Limited	225.9	0.7%	225.9	0.8%
Shirazi Trading (Private) Limited	574.8	1.7%	574.8	1.9%
Atlas Venture Limited	10.0	0.0%	10.0	0.0%
Atlas Autos (Private) Limited	1,000.0	2.9%	1,000.0	3.4%
Atlas Metals (Private) Limited	593.3	1.7%	574.1	1.9%
Atlas Solar Limited	390.0	1.1%	390.0	1.3%
<i>Listed Shares</i>				
Atlas Honda Limited	11,936.7	34.9%	11,936.7	40.1%
Atlas Battery Limited	2,834.7	8.3%	2,961.7	9.9%

Atlas Insurance Limited	1,829.7	5.4%	1,829.7	6.1%
Associates				
<i>Unlisted Shares</i>	FY22	% FY22	FY23	%FY23
Honda Atlas Power Product	8.8	0.0%	8.8	0.0%
Madian Hydro Power Limited	72.0	0.2%	-	0.0%
Integration Xperts (Private) Limited	161.4	0.5%	161.4	0.5%
<i>Listed Shares</i>				
Honda Atlas Cars (Pakistan) Limited	8,396.7	24.6%	3,982.5	13.4%
Total Investments	34,166.2		29,787.9	

As of Jun'23, the Company's total investment portfolio, including both long-term and short-term investments, constitutes 92.4% (FY22: 93.2%; FY21: 94.1%) of the asset base.

As of Jun'23, SIL's long-term investment portfolio represented about 65.8% (FY22: 70.1%; FY21: 72.7%) of the total asset base. This portfolio consisted of investments in 15 companies: 12 subsidiaries and sub-subsidiaries, including 3 listed and 9 unlisted companies, and 3 associates, with 1 listed and 2 unlisted entities.

By Jun'23, around 73% (FY22: 76%; FY21: 80%) of the long-term investment portfolio was accounted for by two subsidiaries, Atlas Honda Limited and Atlas Power Limited, and one associate company, Honda Atlas Cars Pakistan Limited - HCAR.

The total value of long-term investments decreased to Rs. 29.8b (FY22: Rs. 34.2b, FY21: Rs. 40.0b) by the end of Jun'23, primarily due to an unrealized loss of Rs. 4.4b in the fair value revaluation of investments, particularly in the associate investment HCAR.

Short-term Investments Portfolio	FY22	% FY22	FY23	%FY23
<i>Listed Shares (Rs. in million)</i>				
Cherat Cement Company Limited	1,361.8	12.1%	1,760.5	14.6%
Engro Fertilizer Limited	-	0.0%	371.8	3.1%
Fauji Fertilizer Company Limited	-	0.0%	307.4	2.6%
Habib Bank Limited	1,096.4	9.8%	-	0.0%
Habib Metropolitan Bank Limited	-	0.0%	168.0	1.4%
Meezan Bank Limited	1,139.0	10.1%	526.0	4.4%
Pakistan Cables Limited	209.3	1.9%	173.1	1.4%
Pakistan Oilfield Limited	-	0.0%	263.9	2.2%
Systems Limited	2,510.1	22.3%	3,069.2	25.5%
United Bank Limited	-	0.0%	493.4	4.1%
<i>Mutual Funds - Associates (Rs. in million)</i>				
Atlas Aggressive Allocation Islamic Plan	109.6	1.0%	109.2	0.9%
Atlas Moderate Allocation Islamic Plan	113.1	1.0%	112.7	0.9%
Atlas Conservative Allocation Islamic Plan	113.2	1.0%	113.0	0.9%
Atlas Islamic Capital Preservation Plan II	212.3	1.9%	211.8	1.8%
Atlas Income Fund	701.1	6.2%	-	0.0%
Atlas Islamic Stock Fund	971.2	8.6%	938.9	7.8%

Atlas Stock Market Fund	2,273.0	20.2%	2,037.1	16.9%
Mutual Fund - Other related (Rs. in million)				
Atlas Sovereign Fund	202.0	1.8%	-	0.0%
Atlas Islamic Money Market Fund	221.5	2.0%	-	0.0%
Atlas Money Market Fund	-	0.0%	1,366.6	11.4%
Total Investments	11,233.6		12,022.6	

SIL is actively engaged in the trading and investment of listed equity securities and mutual funds, maintaining a short-term investment portfolio of Rs. 12.0b (FY22: Rs. 11.2b; FY21: Rs. 11.8b) as at end-FY23. The increase in the portfolio is primarily attributed to the acquisition of units in Atlas Money Market.

Approximately 59% (FY22: 56%; FY21: 44%) of the short-term investment portfolio comprised listed blue chip equity investments. These represented 16.2% (FY22: 13.6%) of the equity base. The rest of the portfolio includes investments in a related party mutual funds, with a focus primarily on money market and equity funds.

SIL's net earnings saw a positive uptick, primarily attributable to higher dividend income, a decrease in unrealized losses on investment portfolio, and reversal of impairment losses.

The primary source of income for the Company comes from dividends received from its investment portfolio, complemented by earnings from property rentals. Additional revenue streams include fees for services provided.

In FY23, there was a notable rise in dividend income, with Atlas Honda Limited (AHL) and Atlas Autos (Private) Limited (AAPL) making the most significant contributions to this increase. Dividend inflows in the outgoing fiscal year registered a growth of ~25% and were reported at Rs. 5.3b (FY22: Rs. 4.2b; FY21: Rs. 2.9b). Although the dividend income stream is from a diversified portfolio, around 52.3% of the dividend income emanates from two entities—AHL and AAPL, followed by Atlas Battery Limited (12.7%) and Atlas Insurance (11.5%), depicting high concentration risk.

Dividend income (Rs. in million)	FY22	FY23
Atlas Autos Private Limited	300	1,200
Atlas Power Limited	873	437
Atlas Insurance Limited	448	605
Atlas Honda Limited	1,757	1,562
Atlas Battery Limited	57	670
Honda Atlas Cars (Pakistan) Limited	302	-
Atlas Income Fund	58	-
Others	411	806
Total Dividends	4,205.40	5,279.36

During FY23, service income was recorded higher at Rs. 151.8m (FY22: Rs. 102.8m; FY21: Rs. 30.5m). Rental income amounted to Rs. 130.0m (FY22: Rs. 120.2m; FY21: Rs. 146.4m) in FY23. Going forward, the management expects healthy growth in rental income by FY25 on account of envisaged future business plans in real estate (Atlas Building Lahore—construction expected to start after obtaining NOC from the

cantonment) and the warehousing segment (ongoing expansion at Port Qasim in the Eastern zone). Unrealized loss on the revaluation of investments reduced to Rs. 105.2m in FY23 compared to Rs. 523.2m in FY22.

Rental Income (Rs. in million)	FY22	FY23
Warehouse building-on leasehold land	91.5	99.9
Building – leasehold	28.7	30.1
Total Rentals	120.2	130.0

Administrative expenses increased to Rs. 1.2b in FY23 (FY22: Rs. 809.8m; FY21: Rs. 679.3m), primarily due to a donation of Rs. 257m to the Atlas Foundation, followed by higher salaries and legal fees. Finance costs incurred have reduced to Rs. 160.9m (FY22: Rs. 167.5m; FY21: Rs. 188.1m) in the outgoing fiscal year, given a lower amount of average borrowings during the review period. Provisions for the impairment of long-term investments have also reduced to Rs. 68.7m (FY22: Rs. 195.0m) due to the reversal of impairment of Rs. 127.0m on Atlas Battery Limited in FY23. As a result, the profitability profile of the Company has improved, with profit after tax reported higher at Rs. 3.0b (FY22: Rs. 2.4b; FY21: Rs. 3.4b) in FY23. Despite the uncertain macroeconomic climate, management anticipates steady dividend income in the current year, with expectations of a gradual rise over the rating horizon. Achieving these projected targets will be important from a ratings perspective.

Sound capitalization profile:

As of June 2023, the Company's net equity amounted to Rs. 44.1b (FY22: Rs. 46.5b; FY21: Rs. 52.7b) while the decrease was largely attributed to revaluation losses on investment portfolio. Additionally, the dividend payout ratio was reported at 46.5% (FY22: 50.9%; FY21: 29.2%) in FY23. The Company's conservative financing strategy amidst high-interest rate environment resulted in a total unutilized running finance arrangement from various banks of Rs. 5.7b at the end of FY23. However it is important to note that the Company has a cross corporate guarantee in favor of its related party to a foreign commercial bank amounting to Rs 5.3b (Jun'22: Rs. 3.4b). Nevertheless, liquidity profile of the Company remains strong, with a sizable liquid investments and coverage of short-term borrowings. Liquid assets to total liabilities stands at 10.83x (Jun'22: 4.92x) at end Jun'23. Looking ahead, the management intends to focus on investing in mutual funds and refrain from engaging in short-term borrowing.

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

The Board of Directors (BoD) comprises five individuals, with four members belonging to the Shirazi family, who are also shareholders in the Company. The Board is chaired by Mr. Iftikhar H. Shirazi, a veteran in the corporate world, with more than 37 years of experience, 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.

SIL has in place a qualified senior management team with extensive experience. The Company has deployed Oracle Fusion Financial Cloud 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 ShineWing Hameed Chaudhri & Co. Chartered Accountants, who are QCR Rated from ICAP and classified in 'Category B' of SBP's Panel of Auditors.

Shirazi Investments (Private) Limited
Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	FY21	FY22	FY23
Long Term Investments	40,009.8	34,166.2	29,787.9
Investment Property	2,195.2	2,149.6	2,263.3
Short Term Investments	11,780.4	11,233.6	12,022.6
Bank Balances	4.0	2.3	23.5
Prepayments & Other Receivables	375.6	262.3	109.4
Total Assets	55,063.7	48,736.9	45,254.8
Trade and Other Payables	123.6	33.1	18.9
Long Term Loan <i>(including current portion)</i>	356.8	258.5	174.4
Short Term Borrowings	1,234.8	1,868.3	-
Total Interest Bearing Debt	1,591.6	2,126.7	174.4
Total Liabilities	2,356.5	2,284.6	1,112.3
Paid -up Capital	2,201.1	2,201.1	2,201.1
Share premium	26,839.7	26,839.7	26,839.7
Amalgamation reserve	1,222.6	1,222.6	1,222.6
Unappropriated profit	17,048.2	18,093.8	18,982.8
Unrealized gain/(loss) on revaluation	5,395.6	(1,904.9)	(5,103.7)
Total Equity	52,707.2	46,452.3	44,142.5
Total Equity (less Amalgamation reserve)	51,484.6	45,229.7	42,920.0
<u>INCOME STATEMENT</u>			
Dividend Income	2,922.6	4,205.3	5,279.4
Rental Income	146.4	120.2	130.0
Administrative Expenses	(679.3)	(809.8)	(1,189.4)
Finance Cost	(188.1)	(167.5)	(160.9)
Profit / (Loss) Before Tax	3,962.4	2,869.3	4,142.7
Taxation	(536.0)	(512.6)	(1,110.8)
Profit / (Loss) After Tax	3,426.4	2,356.7	3,031.9
<u>RATIO ANALYSIS</u>			
Gearing (x)	0.03	0.04	0.00
Debt Leverage (x)	0.05	0.05	0.02
FFO	2,762.6	2,576.6	3,136.0
Current Ratio (x)	7.80	5.84	23.40

REGULATORY DISCLOSURES		Appendix II			
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				
	01/24/2024	AA	A-1+	Stable	Upgrade
	03/02/2023	AA	A-1	Stable	Reaffirmed
	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	December 19, 2023		