

## RATING REPORT

### Security Investment Bank Limited

**REPORT DATE:**

October 17, 2016

**RATING ANALYSTS:**

Muniba Khan

*muniba.khan@jcrvis.com.pk*

#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	BBB+	A-2	BBB+	A-2
<b>Rating Outlook</b>	-		Stable	
<b>Outlook Date</b>	October 14, '16		July 07, '15	

#### COMPANY INFORMATION

<b>Incorporated in 1991</b>	<b>External auditors:</b> Muniff Ziauddin & Co. Chartered Accountants
<b>Non-Banking Finance Company</b>	<b>Chairman of the Board:</b> Mr. Haji Jan Muhammad
<b>Key Shareholders (with stake 5% or more):</b>	<b>Acting Chief Executive Officer:</b> Mr. Zafar M. Sheikh
Key group of individuals– 59.6%	
Public individuals– 26.6%	

#### APPLICABLE METHODOLOGY(IES)

**JCR-VIS Entity Rating Criteria:** <http://www.jcrvis.com.pk/Images/NBFC.pdf>

## Security Investment Bank Limited

OVERVIEW OF  
THE INSTITUTION

*In 1991, Security Investment Bank Limited (SIBL) was incorporated as a public limited company under the Companies Ordinance, 1984. The shares of SIBL are listed on the Pakistan Stock Exchange (PSX). Financial statements for FY15 have been audited by Munjiff Ziauddin & Co. Chartered Accountants.*

## RATING RATIONALE

As per amended Non-Banking Finance Companies (NBFCs) regulations, companies undertaking business of investment finance with deposit taking permission are required to have a minimum capital of Rs. 750m by November 25, 2016. In relation to this requirement, Security Investment Bank Limited (SIBL) is currently short by Rs. 230.5m at end-HY16. In a recent Board meeting, it was decided that the company will continue as a non-deposit taking institution to comply with the Minimum Capital Requirement (MCR). As per the amended NBFC rules, a non-deposit taking financial institution must maintain a MCR of Rs. 100m. At end-June 2016, equity of the company stood comfortably above this level at Rs. 519.5m. Moreover, future business and financial plans are yet to be finalized.

For the last few years, the company has been highly dependent on lending to two of its associated companies with balances outstanding since long. Hence, underwriting experience of management has suffered. During 2015, the bank increased its investment portfolio by taking fresh exposure in equity market. However, largest exposure of the bank remained in long term government paper representing around one-third of the investment portfolio. Given that these PIBs will mature in 2024, market risk on the portfolio is considered high.

Given lower return from government securities, revenue base of the bank declined significantly to Rs. 43.8m during FY15 (FY14: Rs. 74.2m). However, revenue base was supported by income from financing activities. In absolute terms, return on financings increased largely on account of higher average financing portfolio during FY15 as compared to the previous year. With no repo borrowings utilized during the year, the bank was able to reduce its overall cost of funds. Despite this, a nominal surplus was generated on core operations. In the backdrop of a declining interest rate scenario, the company may face further pressure on spreads. Going forward, operational loss is expected to emerge in the ongoing year.

Given that asset base is mainly funded by equity, overall liquidity profile of the institution is considered sound. As such, there are no major borrowings outstanding which may trigger liquidity call. Moreover, funding generated under deposits remained limited with deposits mainly pertaining to related parties. More than half of the bank's assets are lent to related parties while a nominal proportion of funding base is locked in by them.

Turnover was witnessed at the helm of the organization; a new acting CEO has been nominated by the Board. Approval of SECP for the same is awaited. Stability in the management team is considered essential to achieve the company's long term objectives.

**Security Investment Bank Limited**

**Appendix I**

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR 000's)</i>		
<b>BALANCE SHEET</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
Long Term Investments	26,181.82	26,181.82	77,006.41
Short Term Investments	40,730.40	29,562.48	430,858.06
Short Term Financing	260,283.60	212,300.00	125,500.00
Cash & Bank Balances	11,986.37	54,903.70	8,619.93
<b>Total Assets</b>	<b>557,052.84</b>	<b>546,216.85</b>	<b>793,127.34</b>
Borrowings	-	-	176,766.01
Deposits	29,112.37	21,777.65	124,614.22
<b>Net Worth</b>	<b>519,077.63</b>	<b>516,541.68</b>	<b>482,744.14</b>
<b>INCOME STATEMENT</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
Net Mark-up Income	38,746.56	43,025.16	32,229.12
Non-Markup Income	3,314.53	1,185.60	5,494.90
Operating Expenses	38,674.55	36,258.61	32,646.06
Profit Before Tax	3,386.55	14,536.895	5,077.957
Profit After Tax	847.53	12,205.60	3,416.33
<b>RATIO ANALYSIS</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
Cost of funding (%)	6.70%	11.42%	8.58%
Markup Spreads (%)	5.15%	3.90%	4.02%
Efficiency (%)	96.38%	71.38%	86.54%
ROAA (%)	0.15%	1.82%	0.38%

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**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](http://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](http://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](http://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.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES				Appendix III	
<b>Name of Rated Entity</b>	Security Investment Bank Limited				
<b>Sector</b>	Non-Banking Finance Company				
<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>				
	10/14/2016	BBB+	A-2	-	Rating Watch – Developing
	7/7/2015	BBB+	A-2	Stable	Downgrade
	8/11/2014	A-	A-2	Stable	Downgrade
	6/28/2013	A	A-2	Negative	Reaffirmed
	6/29/2012	A	A-2	Negative	Maintained
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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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