Saudi Pak Industrial and Agricultural Investment Company Limited

REPORT DATE:
June 19, 2017

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 19, '17*		*Jun 17,'16*	

COMPANY INFORMATION	
Incorporated in 1981	**External auditors:** A.F. Ferguson & Co
Unlisted Public Company	**Chairman of the Board**: Mr. Mohammed W. Al-Harby
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Kamal Uddin Khan
Government of Pakistan – 50%	
Kingdom of Saudi Arabia – 50%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria: Government Supported Entities *http://jcrvis.com.pk/images/gse.pdf*

Saudi Pak Industrial and Agricultural Investment Company Limited

OVERVIEW OF THE INSTITUTION

Saudi Pak was incorporated in 1981 as a private limited company and later converted into an unlisted public limited company. The head office of the company is located in Islamabad while representative offices are situated in Lahore and Karachi.

Profile of Chairman

The Board is chaired by Mr. Mohammad W. Al-Harby, a nominee of KSA; previously he served as General Manager Real Estate Development Fund, KSA.

Profile Of MD

The management team is headed by Mr. Kamal Uddin Khan. Mr. Khan's career spans over three decades in the banking sector. Mr. Khan holds a Master's degree in Computer Science and a diploma in Investment Banking and Corporate Finance from Kellogg School of Management, Northwestern University, USA.

RATING RATIONALE

Ratings assigned to Saudi Pak Industrial and Agriculture Investment Company Limited (Saudi Pak) take into account implicit support of the two sovereign sponsors, the Government of Pakistan and Kingdom of Saudi Arabia (KSA). KSA has outstanding ratings of 'A-/A-2' with a 'Stable' outlook from an international credit rating agency.

Advances: With higher focus on lending activities, gross loan portfolio augmented during FY16. Total disbursements made during FY16 amounted to Rs. 3.9b as compared to Rs. 3.0b in previous year. Despite growth in the lending portfolio, concentration has remained high as the ten largest exposures represented more than half of performing advances. The company has managed to gradually improve sector wise concentration. Traditionally highest concentration in textile sector has been reduced to 13% (FY15: 18.2%; FY14: 24.4%). Going forward, the management plans to focus clients mainly pertaining to food and energy segments. Given adequate provisioning against non-performing loans, net infection was reported at 5.9% at end-1QFY17 (FY16: 7.1%; FY15: 10.7%). As the portfolio mainly comprises second to third tier corporate clients, controlled incidence of fresh infection would remain essential in sustaining risk profile of the company.

Investments: Major portion of the investment portfolio has been deployed in government securities; recently the management has partially disposed-off government securities anticipating some increase in interest rates, going forward. Among listed equities, investment reflects dividend yielding and highly liquid stocks with major exposures pertaining to power, fertilizer and cement segments. Sectoral limit for investment in power sector equities was enhanced from 30% to 40% during FY16. Exposure in listed equities reflected 19.4% (FY15: 14%) of tier-1 equity at end-FY16 against the internal limit of 20%.

Liquidity: Being a secondary market borrower, the company relies primarily on commercial borrowings; major portion is mobilized through repurchased borrowing agreements. More than two-third of the funding is short term in nature; various liquidity gap limits are monitored on an ongoing basis to manage the associated risk; the company has un-utilized credit lines amounting Rs. 1.3b at end-FY16. Overall liquidity profile of the institution remained sound with liquid assets (adjusted for repo) representing 107.6% of total borrowings & deposits at end-1QFY17 (FY16: 101.85%; FY15: 109.2%).

Profitability: Core income of the company remained largely stagnant. The adverse impact of lower average markup bearing assets was largely compensated by higher dividend and rental income. Despite higher provision charged against NPLs and diminution in investment, pre-tax profit declined by modest 2% mainly on the back of higher capital gains. However, net profit was reported considerably lower primarily owing to higher incidence of deferred taxation during FY16. Given declining proportion of high yielding PIBs portfolio by end-1QFY17, the company is exposed to re-investment risk.

Capitalization: Paid-up-capital of the company remained at Rs. 6.6b. Tier-1 equity augmented on a timeline basis on the back of profit retention. Net NPLs (including TFCs) as a portion of Tier-1 capital, were reported lower at 6.6% (end-FY15: 8.8%) by end-FY16. Capital Adequacy Ratio (CAR) increased to 45% by end-FY16 (FY15: 43%) and provides ample room for growth.

Management: The company filled the vacant position of Head of Internal Audit during FY16. Moreover, an experienced resource has been inducted as Head Human Resource Division. Given some vacant positions at the senior management level, Head of Credit Administration Division holds an additional charge of Portfolio Management. Moreover, Company Secretary is also heading the Compliance division.

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FINANCIAL SUMMARY			Annexure I *(amounts in PKR millions)*
BALANCE SHEET	**MAR 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Total Investments	8,670	11,349	12,702
Net Advances	8,129	8,256	6,675
Total Assets	20,879	24,332	24,862
Borrowings	7,261	10,718	12,010
Deposits & other accounts	155	131	7
Subordinated Loans	-	-	-
Tier-1 Equity	10,097	9,921	9,380
Net Worth	12,436	12,386	11,742
INCOME STATEMENT	**MAR 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Net Mark-up Income	196	834	851
Net Provisioning / (Reversal)	42	267	86
Non-Markup Income	279	725	554
Operating Expenses	72	329	336
Profit/(Loss) Before Tax	206	963	983
Profit/(Loss) After Tax	159	476	724
RATIO ANALYSIS	**MAR 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Gross Infection (%)	26.3	26.7	32.1
Provisioning Coverage (%)	82.4	79.1	74.6
Net Infection (%)	5.9	7.1	10.7
Cost of funds (%)	-	5.5	7.7
Capital Adequacy Ratio (CAR) (%)	-	45.0	43.0
Markup Spreads (%)	-	1.9	1.7
Efficiency (%)	27.4	31.7	30.2
ROAA (%)	0.7*	1.9	3.1
ROAE (%)	1.6*	5.0	8.1
Liquid Assets to Deposits & Borrowings (%)	108	102	109

*Non-annualized

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

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 III
Name of Rated Entity	Saudi Pak Industrial and Agricultural Investment Company Limited				
Sector	Development Finance Institution (DFI)				
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				
	19-June-17	AA+	A-1+	Stable	Reaffirmed
	17-Jun-16	AA+	A-1+	Stable	Reaffirmed
	09-Jun-15	AA+	A-1+	Stable	Reaffirmed
	12-Dec-14	AA+	A-1+	Stable	Upgrade
	02-July-14	AA	A-1+	Positive	Reaffirmed
	29-Jun-13	AA	A-1+	Positive	Maintained
	29-Jun-12	AA+	A-1+	Stable	Downgrade
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.				
Probability of Default	JCR-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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