



The Pakistan Credit Rating Agency Limited

Rating Report

Infra Zamin Pakistan Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-May-2023	AAA	A1+	Stable	Maintain	-
02-May-2022	AAA	A1+	Stable	Maintain	-
04-May-2021	AAA	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Infra Zamin Pakistan Limited (IZP) is a recent initiative of the Private Infrastructure Development Group (PIDG). PIDG through group companies (InfraCo Asia Investments/ Indus Guarantees and GuarantCo) has partnered with Karandaz for taking this initiative forward. The shareholding structure plays a pivotal role in the assignment of the rating. Developed by GuarantCo, IZP is to function as a for-profit credit enhancement facility. GuarantCo, rated AAA by PACRA, was established in 2005 and executed its first deal in Pakistan in 2013. The contextual experience of the local market dynamics will lend support to IZP. The business model envisages greater participation of the private sector needed for uplifting the infrastructure of Pakistan. IZP is expected to unlock the hidden potential of the local credit market by way of providing guarantees to reduce the implied credit risk. During FY22, the institution's topline clocked at 499mln, reflecting a significant increase in the net profitability. IZP has developed a decent investment book where the primary contribution is government securities.

The ratings are dependent on the continued support and guidance from the key sponsors. The successful unfolding of the model is of absolute necessity. The Governance and control mechanics are expected to be very strong and gradually mature as the steps toward achieving commencement materialize.

Disclosure

Name of Rated Entity	Infra Zamin Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Non-Banking Finance Companies Rating(Jun-22)
Related Research	Sector Study Credit Guarantee Institutions(Jun-22)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504



Profile

Structure Infra Zamin Pakistan (IZP), a for-profit credit enhancement facility company, was incorporated on 30th Mar'20 as a non-bank financial company ("NBFC") domiciled in Pakistan. The license was issued on 19 February 2021.

Background A credit enhancement facility is set up to 'crowd-in' private sector capital to boost investments in infrastructure and contribute to the development of Pakistan's financial architecture. The core objective behind setting up IZP is to encourage enhanced financial participation in long-term local currency financings of infrastructure assets.

Operations IZP's sole line of business will be to issue PKR-denominated unconditional and irrevocable credit guarantees to credit enhance long-term local currency debt, ensuring the timely payment of interest and principal of senior ranking debt instruments backed by infrastructure-related projects.

Ownership

Ownership Structure IZP is co-owned by Private Infrastructure Development Group (PIDG) company InfraCo Asia Investments via Indus Guarantees (60%) and Karandaaz Pakistan (40%).

Stability Shareholders have solemnized a Shareholders' Agreement which will determine their relationship among themselves and to the entity itself. Shareholders have a lock-in period, which is pivotal to the development of IZP.

Business Acumen The business acumen is considered strong as IZP has strong sponsors' engagement and their experience will go a long way in developing and stabilizing IZP.

Financial Strength PIDG with consolidated strength of eight members is a donor-financed trust. Although no formal commitment exists, the likelihood of support from the sponsors is high in case of need. GuarantCo is to provide a contingent capital facility of up to PKR 8,250mln to IZP.

Governance

Board Structure IZP's Board of Directors currently constitutes two Indus nominees including the Chairman, one Karandaaz nominee, one GuarantCo nominee, two independent directors, and the CEO. The Board has in place four committees for oversight of responsibilities.

Members' Profile The board carries diversified experience including the financial sector, particularly banking, infrastructure development, and other businesses. The majority of the directors have above two decades of experience.

Board Effectiveness The directors shall hold meetings at least once every calendar quarter at the head office of the Company or such other place as the board may decide. The minutes of the meetings are formally documented.

Financial Transparency A.F. Ferguson & Co., Chartered Accountants, a member firm of the PwC network, have been appointed as the External Auditors of the Company.

Management

Organizational Structure IZP is functionally divided into five main groups, each governed by its respective chief and all reporting to the CEO.

Management Team Ms. Maheen Rahman assumed the role of CEO of Infra Zamin Pakistan Limited on 1st Jan' 21 and the requisite approvals for the appointment have been obtained from the Securities & Exchange Commission of Pakistan (SECP). She brings with her over twenty years of experience in investment banking, research, and asset management.

Effectiveness Currently, due to the lean Management / Staffing of the organization, there is one management committee that is looking at all relevant matters about new Business, Risk & Compliance, Finance, HR, and Administration, as well as any other significant issues /matters for discussion that are to be presented to the board/relevant board sub-committees. As the team size grows the relevant Management Committees will be established as per requirement.

MIS Comprehensive MIS reports will be generated on a prescribed frequency for review by management on regular basis.

Risk Management Framework IZP will manage risk through the Governance and Risk Committee which will be responsible for overseeing how the risk management functions and practices of IZP are expected to be conducted and that investment and management of its capital resources are conducted professionally and prudently. Experience of GuarantCo. is a comfort in the identification and management of implied credit risk. IZP is adopting a set of pre-defined parameters for managing credit, liquidity, and market risk.

Business Risk

Industry Dynamics Credit Guarantee Institutions (CGIs) facilitate lending by providing credit guarantees against the risk of default of issuers. These guarantees help these entities in raising debt from financial institutions. Thus CGIs are a vital source of financial assistance to these entities. Globally, most CGIs are mandated to promote business, financial markets, and infrastructure development activities mainly in less developed segments.

Relative Position IZP's differentiating factor is conceded from direct engagement with the Investors/Lenders in the debt of underlying transactions, leading to a transfer of knowledge on well-structured infrastructure debt, thus creating greater capacity in the infrastructure markets and a greater impact on domestic government policy given the capital commitment to the country by a local entity.

Revenues IZP generates revenue from two main sources; guarantee income and investment income. The primary operations are the Guarantee Operations, and IZP aims to build a solid pipeline to generate fee revenues. The guarantee fee charged by IZP will be market driven. IZP will be materially under-levered compared to its capital base until a track record is built.

Performance During CY22, the revenues earned amounted to PKR 499mln where a sizable portion emanated from income from the investment book (CY22: PKR 459.3mln, CY21: PKR 114.8mln). Administrative expenses increased to PKR 235.9mln (CY21: PKR 225.3mln). Hence, the net profitability for the year clocked in at KR 129mln against the loss recorded in the last year.

Sustainability IZP will be a local entity, capitalized in-country and partnering with local capital providers, removing cross-border and systemic downgrade risks and thus creating a more robust and sustainable and "future-proofed" structure.

Financial Risk

Credit Risk A mitigant to managing capital is the use of Approved Credit Risk Mitigant Facilities including reinsurance from highly rated counterparties. For individual credits, IZP may enter the reinsurance market with parties such as local highly rated reinsurers (e.g. and "reinsure" certain credits). Whilst these Approved Credit Risk Mitigant Facilities may not reduce loss given default on an underlying transaction, they will effectively reduce losses that IZP would have otherwise had to pay out through its capital.

Market Risk IZP has adopted a very conservative approach in investing its funded capital. IZP's investment portfolio can be divested quickly if needed due to its higher liquidity. During FY22, the quantum of government securities/investment in PIBs clocked in at PKR 1,329mln (end-Dec21: PKR 353mln) whereas short-term investments (combination of investment in mutual funds and Market treasury bills) amount to PKR 2,660mln (end-Dec21: PKR 3,657mln).

Liquidity And Funding The initial cash capital is being invested in low-risk and highly liquid investment options. IZP does not primarily rely on deposits for lending purposes, as funding requirements are being fulfilled by shareholders.

Capitalization IZP will be funded with PKR 4,125mln equity capital from PIDG company InfraCo Asia Investments and Karandaaz Pakistan, provided by the United Kingdom's Foreign, Commonwealth, and Development Office (FCDO), and an initial matching Contingent Capital Facility (CCF) of PKR 4,125mln from GuarantCo. The shareholder's equity should increase by way of fresh equity injection and/or earnings growth, and the amount of the CCF available will increase on a matching basis up to a maximum of PKR 8,250mln from GuarantCo.



InfraZamin Pakistan
Un-Listed Public Limited

Dec-22

Dec-21

12M

12M

A BALANCE SHEET

1 Total Finances - net	64	32
2 Investments	4,096	4,011
3 Other Earning Assets	-	-
4 Non-Earning Assets	51	46
5 Non-Performing Finances-net	-	-
Total Assets	4,212	4,089
6 Deposits	-	-
7 Borrowings	-	12
8 Other Liabilities (Non-Interest Bearing)	214	212
Total Liabilities	214	223
Equity	3,998	3,866

B INCOME STATEMENT

1 Mark Up Earned	480	140
2 Mark Up Expensed	-	-
3 Non Mark Up Income	19	4
Total Income	500	144
4 Non-Mark Up Expenses	(290)	(287)
5 Provisions/Write offs/Reversals	-	-
Pre-Tax Profit	210	(143)
6 Taxes	(81)	(15)
Profit After Tax	129	(158)

C RATIO ANALYSIS

1 Cost Structure

Net Mark Up Income / Avg. Assets	11.6%	3.4%
Non-Mark Up Expenses / Total Income	58.0%	199.6%
ROE	3.3%	-4.1%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	94.9%	94.5%
Capital Adequacy Ratio	N/A	N/A

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	N/A	34752.4%
(Advances + Net Non-Performing Advances) / Deposits	N/A	N/A

4 Credit Risk

Non-Performing Advances / Gross Advances	0.0%	0.0%
Non-Performing Finances-net / Equity	0.0%	0.0%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB	
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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