



The Pakistan Credit Rating Agency Limited

Rating Report

Escorts Investment Bank Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Sep-2023	BBB+	A2	Negative	Downgrade	-
20-Mar-2023	A-	A2	Developing	Maintain	Yes
25-Mar-2022	A-	A2	Developing	Maintain	Yes
05-Apr-2021	A-	A2	Stable	Maintain	-
09-Apr-2020	A-	A2	Stable	Maintain	-
18-Oct-2019	A-	A2	Stable	Maintain	-
18-Apr-2019	A-	A2	Stable	Maintain	-
26-Oct-2018	A-	A2	Stable	Maintain	-
18-Apr-2018	A-	A2	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

Escorts Investment Bank Limited ("Escorts Bank" or "the Bank") is a subsidiary of Bahria Town (Pvt) Limited, a privately owned real-estate development company that owns, develops, and manages properties across Pakistan. Due to critical economic situation of the Country, the Bank's operational performance is expected to remain susceptible. Lately again, through a notice placed on PSX, an intention to acquire stake in the Bank has been shared. The Bank must be funded through equity so as to sustain operations and Investment Finance Services (IFS) license. Escorts Bank has adopted a cautious approach to avoid non-performing loans and the revenue gather support from profit on financing, followed by the other income. Relevant to the Bank's business model, house finance is a prominent contributor to the Bank's total portfolio. A major proportion of revenue comes from mortgage and micro finance portfolio. On net level, the Bank continues to incur losses due to higher non-markup expenses. Earlier, write-off of tax refunds (pertaining to pre takeover period) and re-assessment of deferred tax asset; owing to change in business plan rendered the Bank short of equity as required to maintain under NBFC Regulations. Going forward, development of a comprehensive business plan, with clear modalities and materialization, remains critical for the Bank. Escorts Bank's capital structure mainly comprises of equity, with a stagnant debt-to-equity ratio. Escorts Bank remains non-complaint with Minimum Capital Requirement of PKR 750mln. Sponsors support, inform of equity injection, remains vital for the ratings. Overall, considerable weak financial position of the Bank and the ongoing economic challenges leads to a rating adjustment and a Negative Outlook with the opinion.

The ratings are dependent on the Bank's relative standing and improved asset quality of the existing portfolio. Moreover, achieving bottom line profitability is important. Meanwhile, any further weakening in the financial profile or lack/delay in support from the sponsor could further impact the ratings.

Disclosure

Name of Rated Entity	Escorts Investment Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Non-Banking Finance Companies Rating(Jun-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Modaraba & NBFCs(Apr-23)
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Profile

Structure Escorts Investment Bank Limited ("Escorts Bank" or "the Bank") is incorporated as a public listed company since Oct-96.

Background The Bank is a subsidiary of Bahria Town (Pvt.) Ltd. (Bahria Town), a leading private real estate company in Pakistan. Bahria Town owns, develops, and manages various properties across the Country. In Jan-18, by injecting equity of PKR 1.2bln, Bahria Town acquired major shareholding and management controls of the Bank.

Operations Escorts Bank started its commercial operations as a Non Banking Financial Company (NBFC). As regulated by SECP, the Bank is licensed to carry out financial services, like micro finance, corporate finance, housing finance and certificates of deposits to corporate and individuals. The Bank is operating countrywide via 12 branches including the Head Office located in Lahore.

Ownership

Ownership Structure The Bank is majorly owned by Bahria Town (~88%). Joint Stock Companies and Financial Institutions hold (~1.6%) and (~0.7%) stake, respectively. Remaining stake is held by general public (~10%), and Insurance companies and Modarabas and (~0.8%).

Stability Ownership of the Bank seems stable as major stake vests with Bahria Town.

Business Acumen Key sponsor of the Bank, Mr. Malik Riaz Hussain is the one of the leading real estate developer of Pakistan. This vouch for his excellent business acumen.

Financial Strength Sponsors are considerably strong financially to support the Bank in financial distress.

Governance

Board Structure The overall control of the Bank currently vests in six-members Board, out of which two are Executive Directors, three Non-Executives and one Independent Director.

Members' Profile The Board's Chairman, Mr. Tahir Nawazish holds an experience of more than 47 years. Mr. Tahir is associated with the Board since Jan-20. All other Board members carry diversified professional experience.

Board Effectiveness During the year, the Board met four times. The Board has three committees: Audit Committee, Human Resource & Remuneration Committee and Risk Management Committee. All the committees comprises three members and are chaired by Independent Directors. Attendance of the Board is optimal and minutes are adequately maintained.

Financial Transparency External Auditors of the Bank, Tariq Abdul Ghani Maqbool & Co, Chartered Accountants has issued an unqualified audit report for FY22; however has laid Emphasis of Matter to draw attention towards the Minimum Equity Requirement of PKR 750mln for Investment Finance Services (IFS) license.

Management

Organizational Structure The Bank operates through six departments: Microfinance, IT, Human Resource, Risk, Compliance and Administration. Each department's Head reports administratively to the CEO, who then reports to the BoD.

Management Team The Bank has an experienced management team. Mr. Basit Rahman Malik, the CEO, joined in Oct-22 and has an experience of more than three decades.

Effectiveness Escorts Bank is still evolving and in an expansion phase, policies and procedures for best practices are being adopted. However, the Bank lacks in management effectiveness as there is no management committee to monitor effective running of business operations.

MIS Escorts Bank uses MIS software "Almanac". The software is specialized for housing finance and micro finance and currently being used by number of entities in the NBFCs sector.

Risk Management Framework The management is responsible for establishing the risk management framework in order to ensure an effective and sound internal control and compliance system. Risk department of the Bank is inline with efforts to standardize processes and improve controls.

Business Risk

Industry Dynamics The business environment in the country has remained challenging. Measures taken by the Government toward economic stabilization have impacted overall business sentiments. Due to adverse economic indicators in recent periods, the scenario has turned into a gloomy outlook. The cost of business has risen and NBFCs continue to face stiff competition from banks.

Relative Position Escorts Bank is first private sector company at the moment concentrating solely on providing housing finance to the public especially to potential Bahria Town residents.

Revenues Escorts Bank generates revenue from house finance, mortgage and micro finance portfolio. Total advances of the Bank increased ~138% (9MFY23: ~PKR 164mln, 9MFY22: ~PKR 118mln) backed by increase in long term loans and interest based revenue. Moreover, profit on financing, ~71% of total revenue, supports the overall revenue. However, the overall business performance of the Bank remains stressed.

Performance During 9MFY23, the Bank recorded an increase of ~129% in total revenue (9MFY23: ~PKR 70mln and 9MFY22: ~PKR 54mln) whereas the markup expense remained similar and stood at ~PKR 4mln. During 9MFY23, the Bank reported non markup expenses of ~PKR 112mln (9MFY22: ~PKR 118mln) showing a slight decrease which led to net loss of the Bank. Resultantly, the Bank faced net loss of ~PKR40mln (9MFY22: ~PKR 52mln). However, the ability generate stable profits remains susceptible.

Sustainability Going forward, development of a comprehensive business plan, with clear modalities and materialization, remains critical for the Bank. Sponsors support, inform of equity injection, remains vital for the ratings. Considerable weak financial position of the Bank and the ongoing economic challenges has led to a rating adjustment.

Financial Risk

Credit Risk Escorts Bank's financing book mainly comprised of Loans and Advances. The Bank controlled its credit risk as its financial assets are diversified. Non-Earning asset ratio, as well improved and stood at ~62% as of 9MFY23 (9MFY22: 83.7%). The risk is expected to inflate, going forward.

Market Risk The Bank faces market risks, including interest rate and other price risks, but is not exposed to currency risk due to the absence of foreign currency transactions in its activities.

Liquidity And Funding Main source of funding remains borrowings. During 9MFY23, the borrowings of the Bank stood at ~PKR 53mln (6MFY22: ~PKR 59mln), security deposits stood at ~PKR 8mln (6MFY22: 10mln). Liquidity position of the Bank deteriorated and stood at ~290.4% (9MFY22: ~361.9%) due to decrease in liquid assets (9MFY23: ~PKR 179mln, 9MFY22: ~PKR 287mln) showing that that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Capitalization The capital structure of the Bank mainly comprises of equity. Due to reduced borrowings, the debt-to-equity ratio of Escorts bank remained stagnant (9MFY23: ~0.1x, 9MFY22: ~0.1x). The Bank is non-complaint with Minimum Capital Requirement of PKR 750mln required for IFS license. Total equity of the Bank deteriorated as of 9MFY23 and stood at ~PKR 603mln(9MFY22: ~PKR 643mln) due to less non markup income.



PKR mln

Escorts Investment Bank
Public Listed Company

Mar-23	Jun-22	Mar-22	Jun-21	Jun-20
9M	12M	9M	12M	12M

A BALANCE SHEET

1 Total Finance-net	389	323	325	303	428
2 Investments	57	56	8	-	6
3 Other Earning Assets	18	79	53	141	361
4 Non-Earning Assets	391	444	659	613	628
5 Non-Performing Finances-net	(63)	(63)	(63)	-	(46)
Total Assets	792	839	981	1,057	1,376
6 Funding	61	68	79	113	270
7 Other Liabilities	127	128	114	104	186
Total Liabilities	187	197	194	217	457
Equity	603	643	787	839	920

B INCOME STATEMENT

1 Mark Up Earned	70	68	54	97	133
2 Mark Up Expensed	(4)	(5)	(4)	(6)	(21)
3 Non Mark Up Income	9	29	28	15	14
Total Income	75	92	78	106	126
4 Non-Mark Up Expenses	(112)	(233)	(118)	(184)	(163)
5 Provisions/Write offs/Reversals	(2)	6	(12)	0	9
Pre-Tax Profit	(39)	(135)	(52)	(77)	(28)
6 Taxes	(1)	(62)	(0)	(4)	(2)
Profit After Tax	(40)	(196)	(52)	(81)	(30)

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	149.8%	252.4%	151.5%	173.1%	129.4%
b ROE	-8.6%	-26.5%	-8.6%	-9.3%	-6.2%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	641.5%	473.3%	409.8%	267.1%	141.3%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A	N/A	N/A	0.0%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	169.2%	289.2%	259.6%	166.0%	148.1%
b Borrowings from Banks and Other Financial Institutions / Funding	0.0%	0.0%	0.0%	0.0%	50.9%

4 MARKET RISK

a Investments / Equity	9.4%	8.7%	1.0%	0.0%	0.6%
b (Equity Investments + Related Party) / Equity	1.2%	1.1%	1.0%	0.0%	0.6%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	76.2%	76.7%	80.2%	79.4%	66.8%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	-8.3%	-23.4%	-8.3%	-8.9%	-60.1%

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+	
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-	
BB+	
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-	
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	
CC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. 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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