



The Pakistan Credit Rating Agency Limited

## Rating Report

### Escorts Investment Bank Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
18-Apr-2018	A-	A2	Stable	Upgrade	-
06-Apr-2017	BB	B	Developing	Maintain	-
14-Nov-2016	BB	B	Negative	Downgrade	-
16-Mar-2016	BBB	A3	Stable	Maintain	-
20-Mar-2015	BBB	A3	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect the strong parentage of the bank. The sponsors have injected sizeable equity into the bank; more injection is on cards. They have enabled the bank to settle off the bulk of liabilities to the deposit holders. The management team is in place and a new business strategy is in the offing. Synergistic support for Bahria Town is expected to play pivotal role in the business growth of the bank. Market for mortgage firm is huge, indeed there is sufficient room to expand in Bahria Town schemes. Going forward, revival of business operations and achieving breakeven will be the management focus; for that Housing Finance is the linchpin. The management core focus will be to achieve breakeven. The new sponsors have a good understanding of the real estate market.

The ratings are dependent on the continuous sponsor support and achievement of breakeven by the EIBL new management. Immaculate financial discipline is important. Any discrepancy in achieving its targets remains critical to the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Escorts Investment Bank Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Non-Banking Finance Companies(Jan-17)
<b>Related Research</b>	Sector Study   Modaraba & NBFCs(Apr-18)
<b>Rating Analysts</b>	Jhangeer Hanif   jhangeer@pacra.com   +92-42-35869504

ESCORTS INVESTMENT BANK LIMITED PROFILE	
<b>Incorporated</b>	1996
<b>License</b>	Investment finance services
<b>Legal Status</b>	Listed
<b>Head Office</b>	Lahore

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> <li>NBFCs include 9 Investment Banks.</li> <li>Sector faces stiff competition from banking sector due to limited network, high cost of funding, and weak business dynamics of the industry.</li> <li>Entrance of big players in investment financial services bodes well for the sector.</li> </ul>

## OWNERSHIP

- Bahria town acquired the bank. The major shareholding is held by Bahria Town (Pvt.) Limited (76.3%) while the other owned by the public sector companies and general public.
- Bahria Town (Private) Limited is a privately owned real-estate development company which owns, develops, and manages properties across Pakistan. It is the leading private real estate company in the country.
- Major ownership of Bahria Town held by Chairman & CEO Mr. Malik Riaz Hussain.

## GOVERNANCE

- EIBL's board (BoD) comprises seven members including the CEO. The board included two independent directors.
- All other members are non-executive members except the CEO.
- Mr. Zain Malik is the Chairman of the new board, the only representation of the sponsoring family. He carries enriched experience in the real estate business, financial services and brokerage. The new board will play an important role in imparting strategic direction to the EIBL.
- The board has two committees in place – Audit Committee and HR Remuneration Committee.

## MANAGEMENT

- Being an evolving NBFC, EIBL is developing hierarchical structure.
- The CEO, Mr. Naveed Amin, possesses profound experience of 27 years especially in the Non-Banking Financial Institutions (NBFIs).
- The departments of (i) Finance and Accounts, (ii) Housing Finance and (iii) Admin & CS (iv) IT, and (v) CAD (vi) HR report to the CEO. Risk Management & CoD positions are vacant and to be filled in near future. An audit firm has been hired for the internal audit.

## SYSTEMS & CONTROLS

- ERP system namely Almanac, designed for Non-Banking Financial Institutions (NBFIs), developed by AsianSoft Technologies. IT infrastructure needs improvement.
- Senior management is currently making policies and settling previous book on the basis of generated MIS reports. The software system and ERP need to be developed.

## PERFORMANCE

- During 1HFY18, rising gap between EIBL's return generating assets and interest bearing liabilities resulted in net interest loss of PKR 22mln.
- The bank holds sizeable net non-earning assets of PKR 466mln (3.38x of equity) as at end-Dec17 (end Jun-17: PKR 488mln; end-Jun16: PKR 546mln; end-Jun15: PKR 515mln), mainly comprising tax refunds from the Government of PKR 100mln at end-Dec17 (end Jun-17: PKR 157mln; end-Jun16: PKR 176mln; end-Jun15: PKR 210mln), and Deferred Tax of PKR 167mln at end-Dec17 (end Jun-17: PKR 113mln; end-Jun16: PKR 137mln; end-Jun15: PKR 137mln).
- Though non-interest markup expenses reduced on YoY basis (1HFY18: PKR 25mln; FY17: PKR 62mln; FY16: PKR 61mln; FY15: PKR 66mln) but the other operating charges in the form of impairment, provisions and write off dragged down the bottom line resulting a sizeable loss on to PKR 96mln (FY17: PKR 120mln; FY16: PKR -113; FY15: PKR -21).
- Going forward, management focus would be revival of business operations to the ultimate. Initially Housing finance primarily targeted. The management is confident for new disbursements in near future and has also taken no objection certificate from SECP to issue certificate of deposits (CoD). Key objective of the management is to achieve breakeven. EIBL would fund its financing needs through equity, CoDs and other sources.

## Financial Risk

- EIBL as of Dec-17 leveraging increased as shown by its capital structure on account of erosion of equity (Total Debt / Equity at HFY18: 4.4x; FY17: 2.6x).
- As of current scenario sponsor injected total PKR 1.2bln. Total of PKR 650mln as subordinated loan to meet the minimum capital requirement of 750mln and PKR 176mln has been injected as interest free sponsor loan.
- Currently, management paid to all of its depositors out of which only ~ PKR 63mln were untraceable. In future the better funding mix will be management focus.



## Escorts Investment Bank Limited

PKR mln

<b>BALANCE SHEET</b>	<b>31-Dec-17</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
	<b>1HFY18</b>	<b>FY17</b>	<b>FY16</b>	<b>FY15</b>
<b>Assets</b>				
Investments (Others)	8	10	25	106
Equity	8	10	25	35
Commodity	0	0	0	71
Advances & Finances	107	126	191	527
Other Earning Assets	252	253	398	451
Fixed Assets	96	119	129	137
Net Non-Performing Advances	0	0	0	0
Other Non Earning Assets	466	488	546	515
<b>Total Assets</b>	<b>928</b>	<b>997</b>	<b>1,263</b>	<b>1,631</b>
<b>Liabilities</b>				
Deposits	447	448	701	1082
Borrowings	154	154	100	0
Other Liabilities	168	132	79	61
<b>Equity</b>				
Equity (including surplus on revaluation)	158	263	383	489
<b>Total Liabilities &amp; Equity</b>	<b>928</b>	<b>997</b>	<b>1,263</b>	<b>1,632</b>

**INCOME STATEMENT**

Net Interest / Mark Up Revenue	(22)	(35)	(34)	(38)
Other Operating Income/ (Loss)	(19)	2	(17)	50
Total Revenue / (Loss)	(20)	(32)	(50)	12
Administrative and General Expenses	(25)	(62)	(61)	(66)
Pre-provision Profit	(66)	(94)	(111)	(54)
Provisions	(93)	-	-	1
Pre-tax Profit / (Loss)	(159)	(94)	(111)	(53)
<b>Net Income / (Loss)</b>	<b>(96)</b>	<b>(120)</b>	<b>(113)</b>	<b>(21)</b>

**Ratio Analysis****Performance**

ROA	-19.3% *	-10.6%	-7.6%	-1.2%
-----	----------	--------	-------	-------

**Coverages**

Liquid Assets / Total Debt	14.1%	14.7%	18.2%	19.2%
Finances / Total Assets	65.1%	60.6%	63.4%	66.3%

**Loan Loss Coverage**

Impaired Lending / Gross Finances	39.0%	27.2%	19.8%	8.2%
Net Impaired Finances / Equity	0.0%	0.0%	0.0%	0.0%

## Escorts Investment Bank Limited

Apr-18

www.pacra.com

\*Annualize



## ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.			
<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<b>A1+:</b> The highest capacity for timely repayment.  <b>A1:</b> A strong capacity for timely repayment.  <b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.  <b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.  <b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.  <b>C:</b> An inadequate capacity to ensure timely repayment.	
<b>AA+</b>	<b>Very high credit quality.</b> 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.		
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
<b>AA-</b>			
<b>A+</b>	<b>High credit quality.</b> 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.		
<b>A</b>			
<b>A-</b>			
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.		
<b>BBB</b>			
<b>BBB-</b>			
<b>BB+</b>	<b>Moderate risk.</b> 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.		
<b>BB</b>			
<b>BB-</b>			
<b>B+</b>	<b>High credit risk.</b> 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>B</b>			
<b>B-</b>			
<b>CCC</b>	<b>Very high credit risk.</b> "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.		
<b>CC</b>			
<b>C</b>			
<b>D</b>	Obligations are currently in default.		
<b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.	<b>Outlook (Stable, Positive, Negative, Developing)</b> Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or 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'.	<b>Suspension</b> 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, a suspended rating should be considered withdrawn.	<b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.
<b>Disclaimer:</b> PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.			

### **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.
- (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)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent