



The Pakistan Credit Rating Agency Limited

**Rating Report**

**PAIR Investment Company Limited**

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**Rating History**

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Jun-2018	AA	A1+	Stable	Maintain	-
18-Dec-2017	AA	A1+	Stable	Maintain	-
19-Jun-2017	AA	A1+	Stable	Maintain	-
23-Jun-2016	AA	A1+	Stable	Maintain	-
23-Jun-2015	AA	A1+	Stable	Maintain	-

**Rating Rationale and Key Rating Drivers**

Development Financial institutions (DFIs) largely operate on turf common to commercial banks. Limited depth in participation towards development of long gestation projects, low funding base, and high competition become their key challenges.

Joint Venture Financial Institutions are DFIs jointly conceived by the two sovereigns with primary objective of identifying and nurturing multiple development initiatives. Their ratings are mainly characterized by sovereign ownership, adequate standards of governance, and relatively conservative risk appetite.

The ratings assigned takes into account PAIR's ability to sustain its lending portfolio, both in volumes and quality. Management has created an adequate mix of sectors in advances, though client concentration remains high. The capital and treasury division actively manages a portfolio of investments comprising Government securities, Equities, Sukuk & TFCs and funds. During the year, investment book declined; however provides comfortable cushion to the liquidity. Borrowing from financial institution remains the primary source of funding, while management's attention is required for enhancing the deposit base. Liquidity position and capitalization indicators remained stable. Going forward, PAIR is focusing on strengthening the credit portfolio by tapping new customers. Management is cognizant of the fact that they need to find new niche for growth and development, hence new avenues like SME segment, are being explored.

The ratings are dependent on the company's ability to sustain its financial profile while managing the associated risks as advances decrease. The concentration level in funding and advances needs to be pro-actively managed. Consistent efforts by the management to add further diversity to their portfolio and at the same time stability at CEO's position remains critical for the ratings.

**Disclosure**

<b>Name of Rated Entity</b>	PAIR Investment Company Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Correlation between long-term and short-term rating scale(Jun-17),Methodology   Criteria Modifiers(Jun-17),Methodology   Bank Rating(Jun-17)
<b>Related Research</b>	Sector Study   DFI(Jun-18)
<b>Rating Analysts</b>	Muhammad Shahzad Saleem   shahzad@pacra.com   +92-42-35869504



PAIR INVESTMENT COMPANY LIMITED PROFILE	
<b>Incorporated</b>	2007
<b>Major business lines</b>	▪The objective of the company is to profitably promote industrial investment in Pakistan.
<b>Legal status</b>	Limited Company
<b>Head Office</b>	Karachi

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> <li>▪ DFI industry has grown with achieving a CAGR of 11% in the lending portfolio and 10% in funding, over a span of 5 years</li> <li>▪ Portfolio quality is improving with better risk monitoring and conservative lending</li> <li>▪ Going forward, to compete with the other financial institutions (commercial banks primarily), the industry players need to identify new niche for the expansion of DFIs operations</li> </ul>

**PROFILE AND OWNERSHIP**

- **Status:** PAIR Investment Company Limited (PAIR), an equally owned joint venture between Pakistan and Iran, was incorporated in January 2007 and commenced operations as a Development Finance Institution (DFI) on May 29, 2007. The Ministry of Finance (MoF) manages the ownership interests of the Government of Pakistan, while Iran Foreign Investment Company (IFIC) represents the Government of Iran.
- **Background:** IFIC was incorporated in March 1998, and is entrusted with the objective of managing and expanding the Government of Iran's holdings abroad.
- **Operations:** PAIR's activities are largely bifurcated into fund- based and non-fund based, including financing for SME, large industrial and commercial projects, capital and money market operations and other investment banking activities.

**GOVERNANCE**

- **Board Structure:** The overall control of the company vests with five-member board of directors including the CEO and four non-executive directors. PAIR's board comprises two directors representing Pakistan and three directors representing Iran.
- **Members Profile:** All the board members carry vast experience from diversified sectors. Mr. Zahoor Ahmad, nominated by MOF, was the Acting Chairman of the board till May'18. Mr. Arif Ahmed Khan – Secretary Finance – has been nominated as the new Chairman of the Board. With new Chairman being GoP nominee, new CEO nominations are under finalization by IFIC.
- **Board Effectiveness:** The board has formulated four board committees for effective monitoring. All board members attended the quarterly conducted board meetings. Minutes were detailed and well captured.
- **Financial Transparency:** Board has set-up a three member Internal Audit Committee. M/s KPMG Taseer Hadi & Co., Chartered Accountants, external auditors of the Company have expressed an unqualified opinion in their audit report for the year ended December 31, 2017. The Company's request for extension in submission of quarterly financial statements for the quarter ended March 31, 2018 has been acceded till June 30, 2018.

**MANAGEMENT**

- **Organizational Structure:** Well-defined organizational structure to align its operations; entire operational set-up of the company falls under the purview of the Managing Director except for Internal Audit; who reports to the Board Audit Committee.
- **Management Team:** All the team members carry vast experience from diversified sectors. Mr. Hamid Eftekhari Kondelaji, CEO since Aug'17, has been nominated by IFIC and confirmed by the Ministry of Finance. Since Mr. Hamid was not granted work permit, therefore new CEO/MD will soon be announced.
- **MIS Reporting:** The head of departments monitor the performance through real time based system generated reports that can accessed at any point of time.

**RISK MANAGEMENT**

- **Operational Risk:** Cognizant of the risk associated with operations, PAIR has developed and implemented various models and manuals to minimize the company wide risks.
- **Credit Risk:** In CY17, total assets witnessed a decline of 5%. Advances portfolio was passively managed, declining by 12% in CY17. Increase has been witnessed in newly pursued products; Bill discounting (PKR 35mln), leasing (PKR 415mln) and SBP refinancing (PKR 697mln). Top three sector exposure are Textile (22%), Steel (14%) and Sugar (14%). Asset quality remained intact with impaired portfolio forming 18% of total lending and loan loss provision to impaired lending of 98%
- **Market Risk:** Investment in Government securities have decreases and comprises 52% of the entire investment book of PAIR; within the government securities PIBs and T-Bills have weightage of 15% and 85% respectively. The top sectors for equity investments remained Banks, Power, Cement and Fertilizer

**BUSINESS RISK**

- **Performance:** It has been able to tap 7% of the JVFI industry's funding as well as lending base. Net markup revenue declined by 7% on back of lower spreads on lending to corporate clients. Significant increase in other income due to capital gains booked on the sale of PIBs along with declining non-earning assets (26%), slightly increased the net revenue by 3% (PKR 786mln). Admin expense inclined by 10%-YoY resulting in an inclined cost to net revenue to 45% (CY17) from 40% (CY16). Above challenges led to a decline in net profit by 62% and clocking in at PKR 230mln in CY17.
- **Sustainability:** Going forward, focus on strengthening the credit processes while tapping new customers. The liaison office in Tehran to facilitate cross border investments is taking time. Strengthening non-fund based revenues through new products for entering into new sectors.

**FINANCIAL RISK**

- **Liquidity:** Assets and Liabilities Committee is responsible for supervising interest rate risks and maturity mismatch management. Though liquid assets have declined (CY17: PKR 7bln, CY16: PKR 9bln) yet continue to provide comfortable cushion to borrowings and deposits (CY17: 91%, CY16: 109%). With expansion in funding base, maintaining the liquidity level would remain central for the company.
- **Funding:** Company's funding profile remained tilted towards borrowings (78%). Slight decline was witnessed in deposits (13%); with high top 10 COI concentration (97%).
- **Capital:** A strong equity base (CY17: PKR 9.3bln), mainly comprising Tier-I capital provides comfort to absorb the impact of any adverse macroeconomic performance related shocks. PAIR's capital adequacy remained above regulatory requirement (CY17: 59%, CY16: 76%).



The Pakistan Credit Rating Agency Limited

Financials (Summary)

PAIR Investment Company Limited

PKR mln

BALANCE SHEET	31-Dec-17	31-Dec-16	31-Dec-15	30-Dec-14
	Annual	Annual	Annual	Annual
<b>Assets</b>				
<b>Earning Assets</b>				
Advances	4,549	5,114	3,110	3,133
Debt Instruments	4,324	2,901	2,647	3,445
- Total Finances	<b>8,873</b>	<b>8,015</b>	<b>5,757</b>	<b>6,578</b>
Govt Securities	5,803	7,868	14,851	9,368
Equity Investments	1,000	1,086	1,057	1,317
Investments in Associates & Subsidiaries	-	-	-	-
- Total Investments	<b>6,803</b>	<b>8,955</b>	<b>15,909</b>	<b>10,685</b>
Others	1,062	433	216	261
<b>Non Earning Assets</b>				
Non Earning Cash	37	64	46	33
Deferred Tax	261	238	260	273
Net Non Performing Finances	21	298	380	445
Fixed Assets & Others	628	596	654	470
<b>Total Assets</b>	<b>17,686</b>	<b>18,598</b>	<b>23,221</b>	<b>18,744</b>
<b>Liabilities</b>				
Certificates of Investment	1,814	2,080	1,891	386
Borrowings	6,371	6,550	11,652	9,221
<b>Interest Bearing Liabilities</b>	<b>8,185</b>	<b>8,630</b>	<b>13,543</b>	<b>9,607</b>
<b>Non Interest Bearing Liabilities</b>	<b>246</b>	<b>519</b>	<b>485</b>	<b>344</b>
<b>Equity</b>				
Total Equity	9,293	9,367	9,064	8,617
Revaluation Surplus	(37)	83	130	176
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>17,686</b>	<b>18,598</b>	<b>23,221</b>	<b>18,744</b>

**INCOME STATEMENT**

Interest/ markup earned	1,045	1,244	1,510	1,233
Interest/ markup expensed	(387)	(533)	(627)	(508)
<b>Net Interest/ markup revenue</b>	<b>658</b>	<b>710</b>	<b>883</b>	<b>725</b>
Other Income	129	53	360	372
Total revenue	<b>786</b>	<b>764</b>	<b>1,242</b>	<b>1,098</b>
Non Interest/ Non Markup expensed	(351)	(318)	(302)	(283)
Pre-provision Profit	435	445	940	815
Provision/ (Reversal)	(67)	416	(17)	(351)
Taxes	(138)	(258)	(326)	(112)
<b>Net Income</b>	<b>230</b>	<b>603</b>	<b>597</b>	<b>352</b>

**Ratio Analysis**

**Performance**

ROE	3.3%	6.5%	6.8%	4.2%
Cost-to-Total Net Revenue	44.7%	41.7%	24.3%	25.8%
Capital Gains/ Total Revenue	8.8%	0.7%	25.3%	29.8%

**Capital Adequacy**

Equity / Total Assets	52.5%	50.4%	39.0%	46.0%
Capital Adequacy ratio as per SBP	59.3%	76.4%	83.7%	74.1%

**Funding & Liquidity**

Liquid Assets/ Deposits & Borrowings	90.9%	108.7%	118.9%	119.7%
Finances/ Deposits & Borrowings	108.7%	96.3%	45.3%	73.1%

**Loan Loss Coverage**

Loan Loss Provisions/ Impaired Lending	97.8%	74.5%	70.8%	66.6%
Net Impaired Lending/Total Equity	0.2%	3.2%	4.2%	5.2%

PAIR Investment Company Limited



## 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

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- (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)

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