The Pakistan Credit Rating Agency Limited

Rating Report

Infra Zamin Pakistan Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-May-2024	AAA	A1+	Stable	Maintain	-
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 an innovative, for-profit credit enhancement facility funded with equity capital from InfraCo Asia Investments and Karandaaz Pakistan. The initiative is a collaborative effort of the Private Infrastructure Development Group (PIDG), funded by six governments (the UK, the Netherlands, Switzerland, Australia, Sweden, and Germany) and the IFC. InfraZamin leverages the prior experience of InfraCo Asia and GuarantCo in supporting infrastructure projects in Pakistan, as well as Karandaaz's local market knowledge and track record of investments focused on supporting financial inclusion. Karandaaz Pakistan is a not-for-profit special-purpose vehicle set up to promote financial inclusion among individuals through technological solutions. GuarantCo, rated AAA by PACRA, was established in 2005 to help close the infrastructure funding gap and alleviate poverty in lower-income countries across Africa and Asia. The shareholding structure plays a pivotal role in the assignment of the rating. GuarantCo, member of the Private Infrastructure Development Group (PIDG), has extended a contingent capital facility of up to PKR 8.25 billion with a 23-year tenor to InfraZamin Pakistan to issue local currency credit guarantees against debt financing for infrastructure projects in multiple sectors specifically renewable energy, healthcare, transport, and digital communications. The contextual experience of the local market dynamics lends support to IZP. Being the first mover in the CGI industry of Pakistan, IZP aims to serve the local credit markets by providing credit guarantees to enhance the credit quality of infrastructure projects in Pakistan. The IZP executed its first business deal in CY22 with Multinet Pakistan (Pvt.) Limited. During CY23, the institution executed its second business deal with the Kashf Foundation. IZP is in the process of developing a business pipeline in the domains of renewable energy, digital infrastructure, transportation, healthcare, social infrastructure, and FMCG. On the financial profile side, during CY23, the institution's topline increased to PKR 738.4mln (CY22: PKR 499.5mln), attributable to inclined income from investments in government securities and revenue from guarantee contracts. Consequently, the net profitability of the institution increased to PKR 230mln (CY22: PKR 129mln). To keep itself aligned with the market dynamics, IZP is in the continuous process of exploring new avenues to enhance business operations for which the framework is being developed.

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 remain intact in the future. However, the successful maturity of the business pipeline will remain of vital importance.

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(Jul-23),Methodology | Rating Modifiers(Apr-23),Methodology | Non-Banking Finance Companies Rating(Jun-23)
Related Research	Sector Study | Credit Guarantee Institutions(Jun-23)
Rating Analysts	Muhammad Usman Ameer | usman.ameer@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 is 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 determines 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 has been helpful 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 has provided 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, are the External Auditors of the Company. The Auditor is listed in category "A" of the State Bank's panel of auditors. They have expressed an unqualified opinion on the financial statements of the company for the year ended 31st December 2023.

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, there are multiple committees that are 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 are generated on a prescribed frequency for review by management on regular basis.

Risk Management Framework IZP manages risk through the Governance and Risk Committee which is 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. 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 raise 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, a greater impact on domestic government policy given the capital commitment to the country by a local entity.

Revenues IZP's revenue flows through various facets. The main operations are the I) 'Deal Flow' – the size and number of deals that can be expected to close in each period. IZP is aiming to build a solid pipeline to generate fee revenues. During CY23, the revenue earned from financial guarantee contracts inclined to PKR 25.9mln (CY22: PKR 17.5mln). The investment income of the company inclined to PKR 645.1mln (CY22: PKR 459.4mln)

Performance During CY23, the Company's guarantee income covers 13% (CY22: 8%) of the total income. The company's profit after tax (PAT) grew by 77% to stand at PKR 229.5mln (CY22: PKR 129.4mln).

Sustainability IZP is 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 sustainable, and "future-proofed" structure.

Financial Risk

Credit Risk At end-Dec23, the guarantee portfolio of the institution stood at PKR 3,612mln. The current portfolio of IZP consists of two sectors, the digital communication infrastructure and the financial sector. The financial sector has a larger portion of the portfolio clocking in at PKR 2,833mln via Kashf Foundation, whereas, the portion of the digital communication infrastructure stands at PKR 779mln Multinet Pakistan Limited.

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. The company has a large portion of investments in government securities. At end-Dec23, the quantum of investment in PIBs clocked in at PKR 1,933mln (end-Dec22: PKR 1,329mln) whereas short-term investments comprised of investment in mutual funds clocking in at PKR 1,839mln and Market treasury bills at PKR 424mln.

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. Furthermore, IZP conducts quarterly assessment of ALM to review credit risk and ensure asset quality.

Capitalization IZP is 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.

PACRA

PKR mln

InfraZamin Pakistan Limited	Dec-23	Dec-22	Dec-21
Un-Listed Public Limited	12M	12M	12M
A BALANCE SHEET			
1 Total Finances - net	135	64	32
2 Investments	4,299	4,096	4,011
3 Other Earning Assets	-	-	-
4 Non-Earning Assets	55	51	46
5 Non-Performing Finances-net	-	-	-
Total Assets	4,490	4,212	4,089
6 Deposits	-	-	-
7 Borrowings	-	-	12
8 Other Liabilities (Non-Interest Bearing)	261	214	212
Total Liabilities	261	214	223
Equity	4,228	3,998	3,866
B INCOME STATEMENT			
1 Income Earned	678	480	140
2 Mark Up Expensed	-	-	-
3 Non Mark Up Income	60	19	4
Total Income	738	500	144
4 Non-Mark Up Expenses	(390)	(290)	(287)
5 Provisions/Write offs/Reversals	-	-	-
Pre-Tax Profit	348	209	(143)
6 Taxes	(119)	(81)	(15)
Profit After Tax	230	129	(158)
C RATIO ANALYSIS			
1 Cost Structure			
Net Mark Up Income / Avg. Assets	15.6%	11.6%	3.4%
Non-Mark Up Expenses / Total Income	52.8%	58.1%	199.6%
ROE	5.6%	3.3%	-4.1%
2 Capital Adequacy			
Equity / Total Assets (D+E+F)	94.2%	94.9%	94.5%
Capital Adequacy Ratio	N/A	N/A	N/A
3 Funding & Liquidity			
Liquid Assets / (Deposits + Borrowings Net of Repo)	55.0%	55.0%	34752.4%
(Advances + Net Non-Performing Advances) / Deposits	N/A	N/A	N/A
4 Credit Risk			
Non-Performing Advances / Gross Advances	0.0%	0.0%	0.0%
Non-Performing Finances-net / Equity	0.0%	0.0%	0.0%

Credit Rating

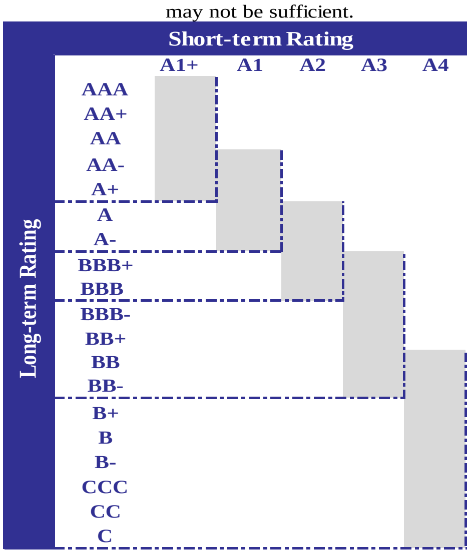
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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

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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

Proprietary Information