



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
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	-
06-Apr-2017	BB	B	Developing	Maintain	-
14-Nov-2016	BB	B	Negative	Downgrade	-

Rating Rationale and Key Rating Drivers

Escorts Investment Bank Limited (“EIBL” or “the Company”) is a subsidiary of Bahria Town (Pvt) Limited, a privately owned real-estate development company that owns, develops, and manages properties across Pakistan. The sponsoring shareholder is in process of divesting its stake, in lieu of which multiple notices have been disseminated on the country’s premier bourse. PACRA is monitoring the development keenly. The Company continues to follow a conservative approach towards writing new business, therefore the bank is funding its needs through equity at the moment. The bank has total long-term financing of PKR ~124mln at the end of Dec-21(Jun-21: PKR ~144mln; Dec-20: PKR ~137mln), tapered by 9.5% compared with the corresponding period last year. The house financing contracted by 6% reaching PKR 161mln and the micro-financing contracted by 71%, reaching PKR 5mln. The bank booked a net loss of PKR 35mln.

An initiative towards the proposed micro-lending branch network expansion plan is in progress, in accordance with which a new head of the micro-finance department has been appointed. This would help the Company improve its operational performance. The assigned rating further takes into account its association with Bahria Town (Pvt) Limited (BTPL). There’s an expected transition in the sponsorship structure that’s the implication on the financial profile is yet to unfold; hence Rating Watch.

The ratings are dependent on the continuous financial strength and maintained liquidity position. Immaculate financial discipline and corporate governance is important. Any discrepancy in achieving its targets or regaining its lost momentum remains critical to the ratings.

Disclosure

Name of Rated Entity	Escorts Investment Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Non-Banking Finance Companies Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Modaraba & NBFCs(Apr-21)
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Profile

Structure Escorts Investment Bank Limited (EIBL), a Non-Banking Finance Company (NBFC), started its commercial operations in 1996. The Company is licensed to carry out investment finance services, as Non-Banking Finance Company under Section 282-C of the Companies Ordinance 1984 and Non-Banking Finance Companies (Establishment and Regulations) Rules 2003.

Background Escorts Investment Bank Limited (EIBL) is the subsidiary of Bahria Town. Bahria Town, a privately owned real-estate development company which owns, develops, and manages properties across Pakistan acquired majority shareholding and management control of Escorts Investment Bank Limited w.e.f. January 8, 2018 and injected PKR 1,200m in the bank. Bahria Town is the leading private real estate company in Pakistan.

Operations EIBL under new management has started its operations with one head office and two branches. Currently it is operating with 12 branches including the head office. The head office is in Lahore. EIBL caters to corporate and individual customers through housing finance and loan for working capital need.

Ownership

Ownership Structure Bahria Town (Pvt) Limited (BTL) acquired Escorts Investment Bank Limited (EIBL) in 2018. The major shareholding is held by Bahria Town associates (88%) while the other is owned by the public sector companies and the general public.

Stability Bahria Town (Pvt) Limited (BTL) has been backing up Escorts Investment Bank Limited since its incorporation by injecting the equity in the form of the paid-up capital. The capital has also been strengthened by providing subordinated loans to EIBL, whenever needed, from Bahria Town (Pvt) Limited.

Business Acumen Bahria Town (Pvt) Limited is a Rawalpindi-based privately owned real-estate development company which owns, develops and manages properties across Pakistan. Real Estate – relevant to the business model of EIBL – comprises a major proportion of Bahria Town's Business.

Financial Strength Bahria Town has the financial muscle to support and stands behind EIBL in case of any financial need. The sponsors have other businesses as well besides Bahria Town including real estate properties and housing schemes.

Governance

Board Structure The overall control of the Company vests in five-member board of directors, out of which two are independent directors and the rest are non-executive directors. The board has no representation of any executive director.

Members' Profile Ms. Zainab Malik is the Chairman of the board, the only representation of the sponsoring family. She carries experience of corporate governance of more than nine years over different companies and holds a Master's degree in Economics from Karachi University.

Board Effectiveness The board has two committees in place – Audit Committee and HR Remuneration Committee. EIBL has hired an audit firm for its internal audit. The board keeps stringent checks on the operations of EIBL.

Financial Transparency The external auditors of the Company, Crowe Hussain Chaudhury & Co. Chartered Accountants, expressed an unqualified opinion on the financial statements for year ended June 30, 2021. Tariq Abdul Ghani Maqbool & Co., Chartered Accountants will be new external auditors of EIBL for the year ending June 30, 2022.

Management

Organizational Structure EIBL has a well-established organizational structure to inform, direct, manage and monitor the activities of the Company toward the achievement of its objectives.

Management Team Mr. Naveed Amin, CEO, resigned last month due to some personal commitments, he possesses profound experience of 29 years especially in the Non-Banking Financial Institutions (NBFI)s. The other personnel in the management are experienced and competent professionals with praiseworthy credentials.

Effectiveness Since EIBL is still evolving and in an expansion phase, policies and procedures for best practices are being adopted. Management committees play an integral role in the management' effective running of business operations.

MIS EIBL has in use a new Management Information System software "Almanac". The software is specialized for housing finance and micro-financing and currently being used by number of entities in the NBFCs sector.

Risk Management Framework The Board of Directors is responsible for establishing the risk management framework in order to ensure an effective and sound internal control and compliance system. An independent internal audit team is assisting the Audit Committee, which in turn reports to the Board.

Business Risk

Industry Dynamics The Non-Banking Finance Companies heavily rely on the growth of real estate industry. The real estate industry has always been on the rise in Pakistan. The industry enjoys special interest from investors and the Government alike.

Relative Position Although there are other NBFC's and FI's which lend to customers for housing finance, EIBL is first private sector company at the moment concentrating solely on providing housing finance to the public especially prospective Bahria Town residents.

Revenues During 6MFY22, EIBL focused on increasing the business through market penetration and capitalization of business opportunities and reported the revenue of PKR~58m (6MFY21: PKR~63m; FY21: PKR~112m). The revenue primarily got the support from profit on financing which is almost 65% of total revenue, followed by the other income.

Performance During the period under review, the Company continues to follow a conservative approach towards writing new business. As at 31 December 2021, the housing and microfinance portfolio stood at PKR 161m and PKR 92m respectively. The Company has booked PKR 11m on account of provisioning, these clients disturbed during the pandemic period and now reviving their relationship.

Sustainability Going forward, management's focus is on revival of business operations with primary target of micro finance with spread of branch network. Key objective of the management is to achieve break-even. EIBL would fund its financing needs through equity and CoDs from corporate segment, whenever needed.

Financial Risk

Credit Risk EIBL's financing book mainly comprised of Loans and Advances given to the clients. EIBL controlled its credit risk to some extent as its financial assets are diversified in organizations of sound financial standing covering various sectors and segments. NPL coverage ratio remained 100% over the past few years and infection ratio improved and stood at 21% during 6MFY22 (6MFY21: 23%; FY21: 42%) due to cautious business approach and extensive risk assessment.

Market Risk The Company's activities expose it to a variety of market risks (in addition to liquidity and credit risks). Market risk with respect to the Company's activities include interest rate risk, currency risk and other price risk. The Company is not exposed to currency risk arising from currency exposure as it is not involved in foreign currency transactions.

Liquidity And Funding EIBL's main source of funding remains borrowings and certificates of deposits (CoDs), certificates of deposits stood during 6MFY22 at PKR 10m (FY21: PKR 41m) and borrowings stood during 6MFY22 at PKR 63m (FY21: PKR 66m). Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Capitalization The capital structure of EIBL mainly comprises on equity. For the period under review during 6MFY22, the debt-to-equity ratio of EIBL stood at 0.1x (6MFY21: 0.4x). The Company has enough room to minimize its cost of capital by increasing its debts to the optimal levels.



PKR mln

Escorts Investment Bank Limited
Listed Public Limited

Dec-21	Jun-21	Jun-20	Jun-19
6M	12M	12M	12M

A BALANCE SHEET

1 Total Finance-net	236	278	416	307
2 Investments	133	162	114	118
3 Other Earning Assets	12	16	266	577
4 Non-Earning Assets	617	601	628	500
5 Non-Performing Finances-net	-	-	(46)	(67)
Total Assets	998	1,057	1,376	1,435
6 Funding	80	113	270	1,224
7 Other Liabilities	114	104	186	161
Total Liabilities	194	217	457	1,385
Equity	804	839	920	50

B INCOME STATEMENT

1 Mark Up Earned	36	97	133	94
2 Mark Up Expensed	(2)	(6)	(21)	(40)
3 Non Mark Up Income	22	15	14	19
Total Income	55	106	126	73
4 Non-Mark Up Expenses	(79)	(184)	(163)	(122)
5 Provisions/Write offs/Reversals	(11)	0	9	(0)
Pre-Tax Profit	(35)	(77)	(28)	(50)
6 Taxes	(0)	(4)	(2)	(1)
Profit After Tax	(35)	(81)	(30)	(50)

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	142.9%	173.1%	129.4%	167.9%
b ROE	-8.5%	-9.3%	-6.2%	-67.2%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	294.0%	245.1%	153.8%	25.1%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A	N/A	N/A

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	349.9%	271.3%	190.1%	66.1%
b Borrowings from Banks and Other Financial Institutions / Funding	0.0%	0.0%	50.9%	84.3%

4 MARKET RISK

a Investments / Equity	16.6%	19.3%	12.4%	237.9%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.6%	11.3%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	80.6%	79.5%	66.8%	3.5%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	-8.4%	-8.9%	-60.2%	-50.3%

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+	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. 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.
CC	
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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.

(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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