



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
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	-
06-Apr-2017	BB	B	Developing	Maintain	-

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. Contrary to earlier notices placed at PSX citing divestment, sponsors of the Company, now wants to run it. To realize their intents, Sponsors has appointed a seasoned banker, Mr. Basit Rehman Malik as CEO. The Company is funding its needs through equity at the moment. During FY22, EIBL adopted a cautious approach to avoid non-performing loans and reported revenues of PKR~68mln (FY21: PKR~97mln). The revenue primarily got the support from profit on financing which is almost 70% of total revenue, followed by the other income. Relevant to the business model of Escorts Bank, house finance is a prominent contributor into total portfolio of the bank. A major proportion of revenue comes from mortgage and micro finance portfolio. The Company incurred a loss of PKR~196.5mln in FY22. During FY22, the Company faced losses in shape of write-off of tax refunds (pertaining to pre takeover period) and re-assessment of deferred tax asset; owing to change in business plan, amounts to PKR 57.3mln and PKR60.6mln, respectively. This rendered Company short of equity as required to maintain under NBFC Regulations. The capital structure of the Company mainly comprises of equity. For the period under review during FY22, the debt-to-equity ratio of Escorts Bank had remained stagnant at ~0.1x (FY21: ~0.1x). The Company is non-complaint with Minimum Capital Requirement of PKR 750mln for maintaining deposit taking Investment Finance Services (IFS) license, as it carries equity of PKR 624.5mln. Hence the Rating Watch. The management has represented that they have taken up the matter of equity injection with the sponsors, who have shown willingness to put in more equity. This is crucial to future ratings.

New management has taken initiative towards cost cutting and introduction of new products. This would aid the Company improve its operational performance. The assigned rating further takes into account its association with Bahria Town (Pvt) Limited.

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. Sponsors’ support is of paramount importance.

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(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Non-Banking Finance Companies Rating(Jun-22)
Related Research	Sector Study Modaraba & NBFCs(Apr-22)
Rating Analysts	Behrooz Fareed behrooz.fareed@pacra.com +92-42-35869504



Profile

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

Background The Company is a subsidiary of Bahria Town (Pvt) Ltd, a private owned real-estate development company which owns, develops, and manages various properties across Pakistan, acquired majority shareholding and management control of the Company in 2018 and injected PKR1,200mln. Bahria Town is the leading real estate company in the Country.

Operations Escorts bank started its operations with one head office and two branches. Currently it is operating with 11 branches including the head office. The head office is based in Lahore. Escorts bank caters to corporate and individual customers through housing finance and loan for working capital need.

Ownership

Ownership Structure Bahria Town (Pvt) Limited (Bahria Town) acquired Escorts bank in 2018. Major shareholding of the bank is held by Bahria Town associates (85%) while the other is owned by public sector companies and general public.

Stability Bahria Town (Pvt) Limited has been backing up Escorts bank since its acquisition by injecting the equity in the form of the paid-up capital. Capital structure of the bank has also been strengthened by providing subordinated loans to Escorts bank, whenever needed, from Bahria Town (Pvt) Limited. However the sponsor, announced to reduce its stake upto non-controlling interest. The deal with potential buyers couldn't achieve break through and offer was terminated.

Business Acumen Key sponsor of the bank, Mr. Malik Riaz Hussain is the one of the leading real estate developer who owns, develops and manages multiple properties across Pakistan. Success of his projects vouch for excellent business acumen, ability to carve out best strategy and to execute it effectively.

Financial Strength Bahria Town has all the financial muscle to support and stands behind Escorts bank 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 seven-member board of directors, out of which two are executive directors, three non-executives and two are independent directors. The board has formed three committees – Audit Committee, HR & Remuneration Committee and Risk Management Committee. All the committees are chaired by independent director.

Members' Profile Mr. Tahir Nawazish is currently serving as chairman board at Central Power Generation Company and as Director for GENCO Holding Private Limited, since 2016. He has also remained Chairman at First Fidelity Leasing Modaraba for the past 13 years. He holds an MBA from The University of Karachi.

Board Effectiveness The board meets at regular interval of time, once every quarter and whenever need be in case of an extraordinary situation. Attendance of the board is optimal. Adequate minutes of the board is maintained. The board keeps stringent checks on the operations of Escorts bank.

Financial Transparency Tariq Abdul Ghani Maqbool & Co, Chartered Accountants, newly appointed external auditors of the bank, has expressed an unqualified opinion over financials of FY22 with an Emphasis of Matter paragraph which draws attention towards equity levels, now stands at PKR 624.5mln (excluding revaluation surplus) below the Minimum Equity Requirement of PKR 750mln for maintaining deposit taking Investment Finance Services (IFS) license.

Management

Organizational Structure Escorts bank 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. Basit Rahman Malik, new CEO of the bank, is a seasoned banker with over three decades of experience with international foreign commercial banks, primarily HSBC and Standard Chartered Bank (SCB). His last assignment was as Country head SME segment of SCB. He is a graduate from Boston University with majors in banking and finance. He is ably supported by a team of professionals.

Effectiveness Since Escorts bank 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 Escorts bank 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 business environment in the country remained challenging, measures taken by the Government towards economic stabilization has impacted overall business sentiments. Pakistan's economy is recovering steadily due to well-coordinated fiscal and monetary responses to the pandemic. The economic growth is expected to moderate to 4% in FY2022 due to tighter fiscal and monetary policies. Economic indicators in recent periods showed decrease in interest spread over the year, asset yield and cost of funds decreased to 16% and 7% in FY21 (FY20: 18% and 7%). However, profitability of over all industry shows increase, return on asset increased to 9% FY21 (7% FY20), and return on assets increased to 3% (FY20; 2%).

Relative Position Although there are other NBFC's and financial institutes which lend to customers for housing finance, 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 During FY22, Escorts bank adopted the cautious approach to avoid non-performing loans and reported interest based revenue of PKR~68mln (FY21: PKR~97mln). The revenue primarily got the support from profit on financing which is almost 70% of total revenue, followed by the other income. Relevant to the business model of Escorts bank, house finance is a prominent contributor into total portfolio of the bank. A major proportion of revenue comes from mortgage and micro finance portfolio.

Performance The Company incurred a loss of PKR~196.43mln in FY22. During the financial year, Company faced losses in shape of write-off of tax refunds (pertaining to pre-takeover period) and re-assessment of deferred tax asset; owing to change in business plan, amounts to PKR57.3mln and PKR60.58mln, respectively. This has resulted in further deterioration in net results of the Company and rendered Company short of equity as required to maintain under NBFC Regulations.

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. Escorts bank would fund its financing needs through equity and CoDs from corporate segment, whenever needed.

Financial Risk

Credit Risk Escorts bank's financing book mainly comprised of Loans and Advances given to the clients. Escorts bank 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, Non-Earning asset ratio, as well improved and stood at 68% during FY22 (FY21: 73%) 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 Escorts bank's main source of funding remains borrowings. During FY22, security deposits stood at PKR~8mln (FY21: PKR~10mln) and borrowings stood at PKR~60mln (FY21: PKR~66mln). Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Capitalization The capital structure of the Company mainly comprises of equity. For the period under review during FY22, the debt-to-equity ratio of Escorts bank had remained stagnant at ~0.1x (FY21: ~0.1x). The Company is non-complaint with Minimum Capital Requirement of PKR 750mln required for deposit taking IFS license, as it carries equity of PKR 624.5mln.



**Escorts Investment Bank
Listed Public Limited**

PKR mln

Sep-22 Jun-22 Jun-21 Jun-20
3M 12M 12M 12M

A BALANCE SHEET

1 Total Finance-net	273	263	303	428
2 Investments	-	-	-	6
3 Other Earning Assets	153	136	141	361
4 Non-Earning Assets	401	441	613	628
5 Non-Performing Finances-net	-	-	-	(46)
Total Assets	827	840	1,057	1,376
6 Funding	67	68	113	270
7 Other Liabilities	125	128	104	186
Total Liabilities	192	197	217	457
Equity	634	643	839	920

B INCOME STATEMENT

1 Mark Up Earned	23	68	97	133
2 Mark Up Expensed	(1)	(5)	(6)	(21)
3 Non Mark Up Income	6	29	15	14
Total Income	27	92	106	126
4 Non-Mark Up Expenses	(36)	(233)	(184)	(163)
5 Provisions/Write offs/Reversals	0	6	0	9
Pre-Tax Profit	(9)	(135)	(77)	(28)
6 Taxes	(0)	(62)	(4)	(2)
Profit After Tax	(9)	(196)	(81)	(30)

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	132.1%	252.4%	173.1%	129.4%
b ROE	-5.6%	-26.5%	-9.3%	-6.2%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	407.3%	385.5%	267.1%	141.3%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A	N/A	0.0%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	273.0%	290.7%	166.0%	148.1%
b Borrowings from Banks and Other Financial Institutions / Funding	0.0%	0.0%	0.0%	50.9%

4 MARKET RISK

a Investments / Equity	0.0%	0.0%	0.0%	0.6%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.6%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	76.7%	76.6%	79.4%	66.8%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	-5.6%	-23.4%	-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)

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(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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