



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
19-Sep-2024	BBB+	A2	Negative	Maintain	-
19-Sep-2023	BBB+	A2	Negative	Downgrade	-
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	-

Rating Rationale and Key Rating Drivers

Escorts Investment Bank Limited ("Escorts Bank" or "the Bank") is a subsidiary of Bahria Town (Pvt) Limited, a privately owned real estate development company that owns, develops, and manages properties across Pakistan. Escorts Bank has adopted a cautious approach to avoid non-performing loans and the revenue gathers support from profit on financing, followed by the other income. Relevant to the Bank’s business model, house finance is a prominent contributor to the Bank’s total portfolio. A major proportion of revenue comes from mortgage and microfinance portfolios. On a net level, the Bank continues to incur losses due to higher non-markup expenses; however, the quantum of losses has reduced. Earlier, the write-off of tax refunds (pertaining to the takeover period) and re-assessment of deferred tax assets; owing to a change in business plan rendered the Bank short of equity as required to maintain under NBFC Regulations. Escorts Bank’s capital structure mainly comprises equity, with a stagnant debt-to-equity ratio. Escorts Bank remains non-compliant with the Minimum Capital Requirement of PKR 750mln. In the form of equity injection, sponsor support remains vital for the ratings. Going forward, development of a comprehensive business plan, with clear modalities and materialization, remains critical. The Bank must be funded through equity to sustain operations and acquire an Investment Finance Services (IFS) license.

The ratings are dependent on the Bank's relative standing and the improved asset quality of the existing portfolio. Moreover, achieving bottomline profitability remains important. Meanwhile, any further weakening in the financial profile or lack/delay in support from the sponsor could further impact the ratings.

Disclosure	
Name of Rated Entity	Escorts Investment Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Rating Modifiers(Apr-24),Methodology Non-Banking Finance Companies Rating(Jun-24),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study Non-Banking Finance Companies(Apr-24)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Structure Escorts Investment Bank Limited ("Escorts Bank" or "the Bank") was incorporated as a public listed concern in Oct-96.

Background The Bank is a subsidiary of Bahria Town (Pvt.) Ltd. (Bahria Town), a leading private real estate company in Pakistan. Bahria Town owns, develops, and manages various properties across the Country. In Jan-18, by injecting equity of PKR 1.2bln, Bahria Town acquired major shareholding and management controls of the Bank.

Operations Escorts Bank started its commercial operations as a Non-Banking Financial Company (NBFC). As regulated by SECP, the Bank is licensed to carry out financial services, like microfinance, corporate finance, housing finance, and certificates of deposits to corporations and individuals. The Bank is operating countrywide via 11 branches including the Head Office located in Lahore.

Ownership

Ownership Structure The Bank is majorly owned by Bahria Town (~87.96%). Joint Stock Companies and Financial Institutions hold (~1.37%) and (~0.58%) stakes, respectively. The remaining stake is held by the general public (~10.1%), and Insurance companies and Modarabas and (~0.06%).

Stability Ownership of the Bank seems stable as major stakes vest with Bahria Town.

Business Acumen Key sponsor of the Bank, Mr. Malik Riaz Hussain is the one of the leading real estate developer of Pakistan. This vouches for his excellent business acumen.

Financial Strength Sponsors are considerably strong financially to support the Bank, if needs be.

Governance

Board Structure The overall control of the Bank currently vests in a four-member Board, out of which two are Executive Directors, while two are Non-Executive Directors. However, inclusion of an Independent Director can improve the governance of the Bank.

Members' Profile The Board's Chairman, Mr. Tahir Nawazish holds an experience of more than 48 years. Mr. Tahir is associated with the Board since Jan-20. All other Board members carry diversified professional experience.

Board Effectiveness During the year, the Board met four times. The Board has three committees: Audit Committee, Human Resource & Remuneration Committee, and Risk Management Committee. All the committees comprise three members. The audit committee is chaired by the CEO. Attendance of the Board is optimal and minutes are adequately maintained.

Financial Transparency External Auditors of the Bank, Tariq Abdul Ghani Maqbool & Co, Chartered Accountants, has issued an unqualified audit report for FY23; however, has laid Emphasis on the Matter to draw attention towards the Minimum Equity Requirement of PKR 750mln for Investment Finance Services (IFS) license. The audit of annual reports for FY24 is in process.

Management

Organizational Structure The Bank operates through six departments: Microfinance, IT, Human Resources, Risk, Compliance, and Administration. Each department's Head reports administratively to the CEO, who then reports to the BoD.

Management Team The Bank has an experienced management team. Mr. Basit Rahman Malik, the CEO, joined in Oct-22 and has an experience of more than three decades. He is assisted by a team of professionals.

Effectiveness Escorts Bank is still evolving and in an expansion phase, policies and procedures for best practices are being adopted. However, the Bank lacks in management effectiveness as there is no management committee to monitor the effective running of business operations.

MIS Escorts Bank uses MIS software "Almanac". The software is specialized for housing finance and microfinance and is currently being used by several entities in the NBFCs sector.

Risk Management Framework The management is responsible for establishing the risk management framework to ensure an effective and sound internal control and compliance system. Risk department of the Bank is in line with efforts to standardize processes and improve controls.

Business Risk

Industry Dynamics The business environment in the country has remained challenging. Measures taken by the Government toward economic stabilization have impacted overall business sentiments. Due to economic susceptibility in recent periods, the scenario has turned into a disturbed outlook. The cost of business has risen and NBFCs continue to face stiff competition from banks.

Relative Position Escorts Bank is first private sector concern at the moment concentrating solely on providing housing finance to the public especially to potential Bahria Town residents.

Revenues Escorts Bank generates revenue from house finance, gold finance, and microfinance portfolios. During FY23, income from total advances of the Bank increased by ~22% (FY23: ~PKR 70mln, FY22: ~PKR 51mln) backed by an increase in long-term loans and an increase in interest rates on these loans. Moreover, profit on investment (FY23: ~PKR 29mln, FY22: ~PKR 17mln) adds to overall markup income. The overall business performance of the Bank remains stressed. During 9MFY24, the income from advances was reported at ~PKR 52mln (9MFY23: ~PKR 50mln), whereas profit on investment contributed ~PKR 31mln (9MFY23: ~PKR 20mln) to the markup income.

Performance The Bank reported a net markup income of ~PKR 95mln during FY23 (FY22: PKR 63mln), resulting from an increase in gross markup income and stable markup expenses of ~PKR 5mln (FY22: ~PKR 5mln). However, non-markup expenses amounted to ~PKR 153mln (FY22: ~PKR 233mln) leading to a net loss of ~PKR 49mln (FY22: ~PKR 196mln). During 9MFY24, the Bank reported net markup income of ~PKR 78mln (9MFY23: ~PKR 66mln) resulting from an uptick in gross markup income and stable markup expense of ~PKR 5mln (9MFY23: ~PKR 4mln). Non-markup income witnessed an uptick, reported at ~PKR 17mln (~PKR 4mln). The increase in markup and non-markup income therefore reduced the loss of the Bank reported at ~PKR 10mln (9MFY23: ~PKR 37mln).

Sustainability Going forward, implantation of a robust business strategy by the new management is crucial to achieve positive profitability. Sponsors support, in form of equity injection, remains vital for the ratings.

Financial Risk

Credit Risk Escorts Bank's financing book is mainly comprised of loans and advances. The Bank controlled its credit risk as its financial assets are diversified. Non-Earnings ratio improved during FY23 and stood at ~62% (FY22: ~68.5%), due to a decrease in non-earning assets. During 9MFY24, the ratio deteriorated to 64.8% (9MFY23: ~62.2%) due to a slight increase in non-earning assets.

Market Risk The Bank faces market risks, including interest rate and other price risks, but is not exposed to currency risk due to the absence of foreign currency transactions in its activities.

Liquidity And Funding During FY23, the total funding of the Bank stood at ~PKR 58mln (FY22: ~PKR 68mln), leading to an improved liquidity position of the Bank reported at ~330.2% (FY22: ~290.7%) showing availability of adequate liquid assets to meet obligations. During 9MFY24, the liquidity position of the Bank stood at ~367.2% (9MFY23: ~290.4%) due to decrease in total funding.

Capitalization The capital structure of the Bank mainly comprises of equity. Due to reduced borrowings, the debt-to-equity ratio of Escorts Bank remained stagnant (FY23: ~0.1x, FY22: ~0.1x). The Bank is non-compliant with the Minimum Capital Requirement of PKR 750mln required for IFS license. Total equity of the Bank deteriorated as of FY23 and stood at ~PKR 595mln (FY22: ~PKR 643mln) due to increase in unappropriated losses. As of 9MFY24, the equity was reported at ~PKR 586mln (9MFY23: ~PKR 603mln) whereas debt to equity ratio remained stable at ~0.1x (9MFY23: ~0.1x).



Escorts Investment Bank Limited
Public Listed Bank

Financial
Summary
PKR mln

Mar-24	Jun-23	Mar-23	Jun-22	Jun-21
9M	12M	9M	12M	12M

A BALANCE SHEET

1 Total Finance-net	295	306	360	263	303
2 Investments	8	120	130	57	125
3 Other Earning Assets	134	44	18	79	16
4 Non-Earning Assets	380	368	377	441	613
5 Non-Performing Finances-net	(78)	(72)	(95)	-	-
Total Assets	738	766	791	840	1,057
6 Funding	46	58	61	68	113
7 Other Liabilities	106	114	127	128	104
Total Liabilities	152	172	187	197	217
Equity	586	595	603	643	839

B INCOME STATEMENT

1 Mark Up Earned	83	100	70	68	97
2 Mark Up Expensed	(5)	(5)	(4)	(5)	(6)
3 Non Mark Up Income	23	11	9	29	15
Total Income	102	106	75	92	106
4 Non-Mark Up Expenses	(112)	(153)	(112)	(233)	(184)
5 Provisions/Write offs/Reversals	(3)	-	(2)	6	0
Pre-Tax Profit	(14)	(47)	(39)	(135)	(77)
6 Taxes	6	(2)	(1)	(62)	(4)
Profit After Tax	(8)	(49)	(40)	(196)	(81)

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	110.2%	144.4%	149.8%	252.4%	173.1%
b ROE	-1.8%	-7.9%	-8.6%	-26.5%	-9.3%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	636.2%	526.9%	593.0%	385.5%	267.1%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A	N/A	N/A	N/A

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	367.2%	330.2%	290.4%	290.7%	166.0%
b Borrowings from Banks and Other Financial Institutions / Funding	0.0%	0.0%	0.0%	0.0%	0.0%

4 MARKET RISK

a Investments / Equity	1.4%	20.2%	21.6%	8.8%	14.9%
b (Equity Investments + Related Party) / Equity	1.4%	1.0%	0.0%	0.0%	0.0%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	79.4%	77.6%	76.3%	76.6%	79.4%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	-1.8%	-7.6%	-8.3%	-23.4%	-8.9%

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	Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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	
AA-	
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	
A-	
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	
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+	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	
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.

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 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.*

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

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2) Conflict of Interest

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- 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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- (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)
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- (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)

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- (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)

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