



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
26-Oct-2018	A-	A2	Stable	Maintain	-
18-Apr-2018	A-	A2	Stable	Upgrade	-
06-Apr-2017	BB	B	Developing	Maintain	YES
14-Nov-2016	BB	B	Negative	Downgrade	-
16-Mar-2016	BBB	A3	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect the financial strength of the bank's sponsor, Bahria Town (Pvt.) Ltd. The sponsors have injected sizeable equity into the bank; more injection is on cards. They have enabled the bank to settle off the bulk of liabilities to the deposit holders. The management team is in place and a new business strategy is in the offing. Synergistic support for Bahria Town is expected to play pivotal role in the business growth of the bank. Market for mortgage firm is huge, indeed there is sufficient room to expand in Bahria Town schemes. Going forward, revival of business operations and achieving breakeven will be the management focus; for that Housing Finance is the linchpin. The management core focus will be to achieve breakeven. The new sponsors have a rich experience of the real estate market.

The ratings are dependent on the continuous sponsor support and achievement of breakeven by the EIBL new management. Immaculate financial discipline and corporate governance is important. Any discrepancy in achieving its targets remains critical to the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Escorts Investment Bank Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   NBFC   Jun18(Jun-18)
<b>Related Research</b>	Sector Study   Modaraba & NBFCs(Apr-18)
<b>Rating Analysts</b>	Muhammad Obaid   muhammad.obaid@pacra.com   +92-42-35869504



## 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 the Companies Ordinance 1984 and Non-Banking Finance Companies Rules 2008.

**Background** Bahria Town is a privately owned real-estate development company which owns, develops, and manages properties across Pakistan. It 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. The head office and one branch is in Lahore while the one branch is in Karachi.

## Ownership

**Ownership Structure** Bahria Town (Pvt) Limited (BTL) acquired Escorts Investment Bank Limited (EIBL) in 2018. The major shareholding is held by Bahria Town (76.3%) while the other is owned by the public sector companies and general public. Major ownership of Bahria Town is held by its Chairman & CEO, Mr. Malik Riaz Hussain. His son, Mr. Ahmed Ali Malik is engaged in the real estate business while his son in law, Mr. Zain Malik, is Chairman of EIBL's Board.

**Stability** BTL is facing legal challenges primarily with reference to its arch-project, Bahria Town Karachi.

**Business Acumen** Bahria Town's Mr. Malik Riaz is a renowned entrepreneur who has delivered many real estate projects, which is also relevant to the business model of EIBL.

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

## Governance

**Board Structure** EIBL's board (BoD) comprises seven members including the CEO, out of which two are independent directors. All board members are non-executive members except the CEO.

**Members' Profile** Mr. Zain Malik is the Chairman of the new board, the only representation of the sponsoring family. He carries enriched experience in the real estate business, financial services and brokerage. The new board will play an important role in imparting strategic direction to EIBL. The other board members also bring rich industry experience to the board.

**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** Tariq Abdul Ghani Maqbool and Company Chartered Accountants, who are QCR rated, expressed an unqualified opinion on the financial statements for the year ended June 30, 2018.

## Management

**Organizational Structure** Being an evolving NBFC, EIBL has adopted a hierarchical structure albeit lean and flat.

**Management Team** The CEO, Mr. Naveed Amin, possesses profound experience of 27 years especially in the Non-Banking Financial Institutions (NBFIs). 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.

**Risk Management Framework** The BoD 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** EIBL's management aims at reviving the company's business by initially tapping the housing finance market. Housing finance business has good potential in Pakistan, as estimated annual demand for new homes is approximately 700,000 a year, whereas, only about half of this demand is met. Overall, the housing deficit is estimated at 10 million units and is growing.

**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 FY18, rising gap between EIBL's return generating assets and interest bearing liabilities resulted in net interest loss of PKR 30mln. The bank holds sizeable net non-earning assets of PKR 359mln (4.48x of equity) as at end-Jun18 (end Jun-17: PKR 488mln; end-Jun16: PKR 546mln), mainly comprising tax refunds from the Government of ~PKR 103mln at end-Jun18 (end Jun-17: PKR 157mln; end-Jun16: PKR 176mln), and Deferred Tax asset of ~PKR 183mln at end Jun-18 (end Jun-17: PKR 104mln; end-Jun16: PKR 127mln)

**Performance** Non-interest markup expense increased by ~50% YoY basis (FY18: PKR 92mln; FY17: PKR 62mln; FY16: PKR 61mln) coupled with the fact that operating charges in the form of impairment, provisions and write off which were incurred one time to clean the Book (FY18: PKR 93mln; FY17: Nil) further dragged down the bottom line resulting in a sizeable loss of PKR 154mln (FY17: PKR 120mln; FY16: PKR -113).

**Sustainability** Going forward, management's focus is on revival of business operations with primary target of housing finance. The management is confident of new disbursements in near future and has also taken no objection certificate from SECP to issue certificate of deposits (CoD). Key objective of the management is to achieve breakeven. EIBL would fund its financing needs through equity, CoDs and other sources.

## Financial Risk

**Credit Risk** EIBL has controlled its credit risk to some extent as its financial assets are diversified in organizations of sound financial standing covering various sectors and segments.

**Market Risk** Post acquisition as the recent interest rate environment has been changing amid economic instability, EIBL has significantly altered its investment portfolio, increasing its short term investments in T bills to PKR 278mln (FY17: PKR 81mln).

**Liquidity And Funding** EIBL's liquidity and funding profile post acquisition has changed drastically. Although funding base has increased, Certificates of Deposit (CoD) have come down in FY18 to PKR 285mln (FY17: PKR 450mln), since the difference has been injected by the sponsors as subordinated debt of PKR 964mln in FY18, compared to institutional lending of PKR 154mln in FY17. At end-Jun18, EIBL had cash and cash equivalents of ~PKR 1,026mln (end-Jun17: PKR 78mln) which included T-bills of PKR 271mln and Cash in savings account of ~PKR 755mln. A rights issue is also in the offing.

**Capitalization** EIBL's leveraging as of Jun-18 increased, as shown by its capital structure on account of erosion of equity and injection of PKR 1.2bln by the sponsor (Total Debt / Equity: 15.6x; FY17: 2.6x)

**Escorts Investment Bank Limited**

<b>BALANCE SHEET</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>
	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>
<b>Assets</b>			
Investments (Others)	8	10	25
Equity	8	10	25
Commodity	0	0	0
Advances & Finances	10	126	191
Other Earning Assets	1027	253	398
Fixed Assets	116	119	129
Net Non-Performing Advances	0	0	0
Other Non Earning Assets	359	488	546
<b>Total Assets</b>	<b>1,520</b>	<b>997</b>	<b>1,263</b>
<b>Liabilities</b>			
Deposits	283	448	701
Borrowings	964	154	100
Other Liabilities	173	132	79
<b>Equity</b>			
Equity (including surplus on revaluation)	100	263	383
<b>Total Liabilities &amp; Equity</b>	<b>1,520</b>	<b>997</b>	<b>1,263</b>

**INCOME STATEMENT**

Net Interest / Mark Up Revenue	(30)	(35)	(34)
Other Operating Income/ (Loss)	4	2	(17)
Total Revenue / (Loss)	(27)	(32)	(50)
Administrative and General Expenses	(92)	(62)	(61)
Pre-provision Profit	(140)	(94)	(111)
Provisions	(93)	-	-
Pre-tax Profit / (Loss)	(233)	(94)	(111)
<b>Net Income / (Loss)</b>	<b>(154)</b>	<b>(120)</b>	<b>(113)</b>

**Ratio Analysis**

<b>Performance</b>			
ROA	-14.0%	-10.6%	-7.6%
<b>Coverages</b>			
Liquid Assets / Total Debt	83.0%	14.7%	18.2%
Finances / Total Assets	82.2%	60.6%	63.4%
<b>Loan Loss Coverage</b>			
Impaired Lending / Gross Finances	83.4%	27.2%	19.8%
Net Impaired Finances / Equity	0.0%	0.0%	0.0%

**Escorts Investment Bank Limited**

Oct-18

[www.pacra.com](http://www.pacra.com)

\*Annualize

## Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	Obligations are currently in default.		



**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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) 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.

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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- (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)
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- (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.
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- (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)
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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)
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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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- (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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