



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
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	YES
14-Nov-2016	BB	B	Negative	Downgrade	-

Rating Rationale and Key Rating Drivers

The ratings reflect the financial strength of bank's sponsor, Bahria Town (Pvt.) Ltd: The sponsors have injected sizable equity into the bank which is currently marked as subordinate loan. They have enabled the bank to settle off the bulk of liabilities to the deposit holders. The management team is in place. The bank faced a slowdown in mortgage loans due to uncertainty pertaining to its prime identified market: Bahria Town. In the wake of recent court judgement, the bank is refreshing the financial projections. Management expects the business to pick up. The subordinate loan from the sponsor would be converted into equity via right issue. Escort Investment was waiting for regulatory approvals; the bank now expects to have the approval in place. This will provide further additional liquidity. Synergistic support from 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. The sponsors have a rich experience of the real estate market. Going forward, revival of business operations and achieving break-even will be the management focus. The bank has reported nominal profit in the quarter ended 31 Dec, 2018.

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

Name of Rated Entity	Escorts Investment Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology NBFC Jun18(Jun-18)
Related Research	Sector Study Modaraba & NBFCs(Mar-19)
Rating Analysts	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 has extended loan to the Bank which is classified as subordinate and as per NBFC Regulations subordinate loan cannot be repaid without approval of SECP. Further, a Right issue is expected to be finalized till June 18.

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 conclusion on the financial statements for six months ended Dec 31, 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's effective running of business operations.

MIS During the period under review, EIBL has purchased new Management Information System software for PKR 7.5mln. The software is specialized for Housing finance and Micro-financing.

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, narrowing gap between EIBL's return generating assets and interest bearing liabilities resulted in net interest income of PKR 13mln. The bank witnessed net interest income, after years of loss, on account of high return on investments (6MFY19: PKR 18mln 6MFY18: 2mln). Further, parent company waived off rent expense resulting in write-back of liability (PKR 16mln).

Performance Non-markup expense increased by ~2.41x YoY basis (6MFY19: PKR 61mln; 6MFY18: PKR 25mln) underpinned by higher personnel and legal cost. Previous years' bottom-line was dragged by impairments, provisions and write offs which were incurred one time to clean the Book. During period under review, the bank reversed PKR 0.3mln under provisions.

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 (FY19: PKR 498mln FY18: PKR 278mln FY17: PKR 81mln).

Liquidity And Funding EIBL's liquidity and funding profile post acquisition has changed drastically - funding base has increased, Certificates of Deposit (CoD) stood at PKR 294mln (FY18: PKR 283mln), PKR 826mln has been injected by the sponsors as subordinated debt. BoD in meeting held on Oct29, 2018 resolved to raise new capital through right issue - against the sponsor loan.

Capitalization EIBL's leveraging as of Dec-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: 26.1x; FY18: 15.6x)

Escorts Investment Bank Limited

BALANCE SHEET

	31-Dec-18 6MFY19	30-Jun-18 FY18	30-Jun-17 FY17	30-Jun-16 FY16
	Unaudited	Audited	Audited	Audited
Assets				
Investments (Others)	20	21	44	59
Equity	7	8	10	25
Cards and Rooms	13	13	33	33
Advances & Finances	56	10	126	191
Other Earning Assets	729	1039	287	431
Fixed Assets	120	103	86	96
Net Non-Performing Advances	0	0	0	0
Other Non Earning Assets	458	359	488	546
Total Assets	1,495	1,520	997	1,263
Liabilities				
Deposits	294	283	448	701
Borrowings	964	964	154	100
Other Liabilities	170	173	132	79
Equity				
Equity (including surplus on revaluation)	68	100	263	383
Total Liabilities & Equity	1,495	1,520	997	1,263

INCOME STATEMENT

Net Interest / Mark Up Revenue	13	(30)	(35)	(34)
Other Operating Income/ (Loss)	(3)	4	2	(17)
Total Revenue / (Loss)	10	(27)	(32)	(50)
Administrative and General Expenses	(61)	(92)	(62)	(61)
Pre-provision Profit	(32)	(140)	(94)	(111)
Provisions	0	(93)	-	-
Pre-tax Profit / (Loss)	(32)	(233)	(94)	(111)
Net Income / (Loss)	(32)	(154)	(120)	(113)

Ratio Analysis

Performance

ROA	-4% *	-14%	-11%	-8%
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Coverages

Liquid Assets / Total Debt	75%	83%	15%	28%
Finances / Total Assets	84%	82%	61%	63%

Loan Loss Coverage

Impaired Lending / Gross Finances	49%	83%	27%	20%
Net Impaired Finances / Equity	0%	0%	0%	0%

*Annualized

Escorts Investment Bank Limited

Mar-19

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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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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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