The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan Kuwait Investment Company (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2023	AAA	A1+	Stable	Maintain	-
29-Jun-2022	AAA	A1+	Stable	Maintain	-
29-Jun-2021	AAA	A1+	Stable	Maintain	-
29-Jun-2020	AAA	A1+	Stable	Maintain	-
21-Dec-2019	AAA	A1+	Stable	Maintain	-
21-Jun-2019	AAA	A1+	Stable	Maintain	-
28-Dec-2018	AAA	A1+	Stable	Maintain	-
13-Jun-2018	AAA	A1+	Stable	Maintain	-
14-Dec-2017	AAA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings are underpinned by strong capitalization, diversified revenue stream, sound liquidity, prudent risk appetite, and efforts of the senior management to implement shareholders’ strategic goals and vision. The total Assets of the Company increased to PKR 798bln as of December 31, 2022, compared to PKR 135bln at the end of last year. PKIC's deposit base enhanced to PKR 13.7bln as of end-Dec 22. Also, advances recorded 64% growth. The net markup income of the Company increased by 12% on the back of higher investments in government securities and an increase in a lending portfolio which includes advances financed by low-cost funding. The buildup of strategic equity investments in different companies provides a strong and stable income stream in the shape of dividends. Net profits are mainly supplemented by dividend and interest income. Treasury policy allows a weighted average duration of the investment portfolio of up to four years whilst dictating effective monitoring of the yield curve for future strategy. The company has focused on treasury operations where it is enhancing its participation in the money market. The liquidity profile of the institution remains comfortable with access to financial institutions to support its treasury and lending operations. A strong equity base and minimal drag of NPLs on equity are positive. Going forward, PKIC will continue to support Pakistan's economy by investing in strategic sectors to improve profitability and increase financial inclusion. PKIC has acquired NOC from the State Bank of Pakistan (SBP) for digital banking license. PKIC plans to establish a Venture Capital Fund for startups, capitalize on growth opportunities with a Private Equity Fund, launch an Islamic Financing Division, and invest in a Real Estate Investment Trust (REIT) for real estate opportunities.

The ratings are dependent on the management's ability to sustain its financial profile while managing the associated risks. Management’s efforts to diversify its operations, and find a new niche for growth, while sustaining its profitability would remain critical.

Disclosure

Name of Rated Entity	Pakistan Kuwait Investment Company (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Financial Institution Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | DFIs(Jun-23)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure Pakistan Kuwait Investment Company (Private) Limited was established in March 1979 as a joint venture between the Governments of Pakistan (GoP) and Kuwait. It is equally owned by GoP through the State Bank of Pakistan (SBP) and the Government of Kuwait through the Kuwait Investment Authority (KIA), representing their respective governments.

Background The Kuwait Investment Authority (KIA), an investment arm of the Government of Kuwait working under the Ministry of Finance, was established in 1982 as an independent legal entity.

Operations The objective of the company is to promote industrial investment in Pakistan profitably. PKIC has been following a growth-based strategy in recent years with respect to advances and investment. Consequently, it has developed a good and diversified portfolio of advances, strategic, and equity investments.

Ownership

Ownership Structure It is equally owned by GoP through the State Bank of Pakistan (SBP) and the Government of Kuwait through the Kuwait Investment Authority (KIA), representing their respective governments.

Stability The ownership structure has remained the same since the inception of the Company. It is likely to stay the same in the foreseeable future.

Business Acumen The business acumen of sponsors is considered strong.

Financial Strength The financial muscle of both sponsors is very strong.

Governance

Board Structure The overall control of the company vests with a six-member board (BoD), having equal representation from both governments. Board’s Chairman is a representative of KIA.

Members’ Profile The BoD members have extensive experience in finance and investment management. This helps provide valuable insight into managing investments and guide management in developing effective risk management policies and procedures.

Board Effectiveness The Board has formulated three committees, namely Audit Committee, Executive Committee, and Risk Management Committee, to ensure smooth and effective operations monitoring.

Financial Transparency A.F Ferguson and Co, Chartered Accountants, was the company’s external auditors. They have given an unqualified opinion on the financials for the year ended December 31, 2022

Management

Organizational Structure Pak Kuwait has an aligned organizational structure for operational efficiency. The company’s main functions are classified as Risk Management, Compliance, Corporate and Investment Banking, Capital Market and Treasury, Finance, Internal Audit, and Human Resource and General Support Services.

Management Team The Company’s management team comprises well-qualified and experienced individuals, who have long association with the company. Mr. Mubashar Maqbool, Pak Kuwait’s MD, has diversified experience in Development, Commercial, and Investment Banking and is associated with the company since March 2019

Effectiveness Pak Kuwait’s complete operational set-up falls under the purview of the Managing Director. All department heads directly report to him, except for the Head of Internal Audit; who reports to the Board Audit Committee, and the Chief Risk Officer, who reports to the Risk Management Committee of the board.

MIS The department heads monitor the performance of their departments on a daily basis through different MIS reports being generated through the system. They report the performance of their respective departments to the CEO on a periodic basis.

Risk Management Framework Pak-Kuwait has developed and implemented various models and manuals to minimize company-wide risks. The Risk Management Department comprehensively covers the development of measurement tools/models (e.g. Obligor Risk Rating (ORR), Facility Risk Rating (FRR), CAMEL rating model, stress testing, Environmental Risk Rating (ERR) Model and ECL Model), the establishment of credit and market risk limits, and formulation of policies and procedural manuals related to the overall risk management.

Business Risk

Industry Dynamics In CY22, JVFI's advances grew to PKR 188 billion, driven by increased system share from Pak Oman and Pak Brunei. Pak Oman led in advances. Investment books primarily consist of government papers, rising to PKR 1,168 billion. The industry relies on non-core operations for income. Deposits slightly increased to PKR 38.1 billion, while the equity base improved to PKR 145 billion. To compete with commercial banks, JVFIs must identify market segments and develop unique offerings to avoid marginalization.

Relative Position During CY22, the market share in terms of advances recorded a robust increase of 56% (CY21: 92%). Moreover, investment books also increased by 254% (CY21: 13%). On the Deposit side, PKIC has performed well and clocked at PKR 13.68bln in CY22 (CY21: PKR 6.3bln).

Revenues During CY22, markup earned witnessed a phenomenal rise to stand at PKR 43.2bln (CY21: PKR 7.3bln), attributable to a significant increase in markup on investments to PKR 39bln (CY21: PKR 6.2bln) and markup on advances to PKR 4.3bln (CY21: PKR 1.0bln). Markup expense spiked due to the addition of deposits and borrowings in CY22 and clocked at PKR 40.7bln (CY21: PKR 5.1bln). Hence, the net markup income of PKIC witnessed an upstick to stand at PKR 2.5bln in CY22 (CY21: 2.3bln). Furthermore, the asset yield increased and stood at 9.5% (CY21: 6.4%). The cost of funds stood at 9.8% (CY21: 6.7%).

Performance During CY22, Non - Markup income of PKIC stood at PKR 14.7bln (CY21: PKR 9.3bln) and continued to supplement the profitability YoY due to the stable share of PKR 13.7bln (CY21: PKR 8.9bln) in profit from associates. Net markup income to total income decreased to 15% (CY21: 20%) primarily due to an increase of 49% in total income. During CY22, PKIC recorded a provision for impairment in investment and advances, aggregating to PKR 1.2bln. Hence, the net profit of the Company stood at PKR 11bln (CY21: PKR 7.9bln), up 40% YoY.

Sustainability In January 2023, the State Bank of Pakistan (SBP) granted no-objection certificates to five applicants seeking to establish digital banks. One of these applicants is Raqami Islamic Digital Bank (RIDB), which will be formed by the consortium led by PKIC. PKIC also plans to establish a Venture Capital Fund for startups, capitalize on growth opportunities with a Private Equity Fund, launch an Islamic Financing Division, target essential sectors, and invest in a Real Estate Investment Trust (REIT) for real estate opportunities. As advised by SBP, PKIC has adopted the IFRS-9 standard from January 01, 2023.

Financial Risk

Credit Risk During 1QCY23 and CY22, the Company’s Corporate Banking Portfolio continued the surge to PKR 59.19bln and PKR 59.41bln (CY21: PKR 36.1bln) respectively. Pak Kuwait maintains a portion of its finances in TFCs (1QCY23: 14%, CY22: 15%, CY21: 23% of total finance). During CY22, the TFC portfolio inched up to stand at PKR 8.7bln (CY21: PKR 8.2bln) while in 1QCY23, the TFC portfolio stood at PKR 8.5bln.

Market Risk Pak Kuwait maintains investments in high-rated scrips carrying favorable market values. In CY22, exposure in the equity market declined to PKR 2.2bln (CY21: PKR 3.3bln). The capital market department has an approved list of stocks for trading activities.

Liquidity And Funding The liquid assets (1QCY23: PKR 31.76bln, CY22: PKR 130.25bln, CY21: PKR 36.5bln) continue to provide a robust cushion to the borrowings of Pak Kuwait. During 1QCY23, borrowings stood at PKR 881.7bln (CY22: PKR 727.2bln; CY21: PKR 81.2bln). In CY22, PKIC recorded deposits at PKR 13.68bln (CY21: PKR 6.3bln), and in 1QCY23 the deposit of the Company stood at PKR 7.4bln.

Capitalization A strong equity base (CY22: PKR 49.9bln; 1QCY23: PKR 52.0bln; CY21 PKR 42.2bln), mainly comprising Tier-I capital provides comfort to absorb the impact of any adverse macroeconomic performance-related shocks. Pak Kuwait’s capital adequacy stood at 19.7% during CY22 (1QCY23: 19.4%, CY21: 24.5%), remaining above regulatory requirements.

PKR mln

Pakistan Kuwait Investment Company	Mar-23	Dec-22	Dec-21	Dec-20
Listed Public Limited	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	59,193	59,411	36,138	20,104
2 Investments	858,515	715,534	95,626	84,871
3 Other Earning Assets	9,105	9,917	19	14
4 Non-Earning Assets	23,542	14,293	3,811	2,096
5 Non-Performing Finances-net	(1,078)	(1,059)	(559)	(259)
Total Assets	949,277	798,096	135,034	106,826
6 Deposits	7,455	13,685	6,265	2,820
7 Borrowings	881,768	727,243	81,209	62,153
8 Other Liabilities (Non-Interest Bearing)	8,023	7,226	5,376	4,135
Total Liabilities	897,247	748,155	92,850	69,108
Equity	52,030	49,941	42,184	37,717
B INCOME STATEMENT				
1 Mark Up Earned	28,909	43,194	7,340	6,665
2 Mark Up Expensed	(28,386)	(40,662)	(5,079)	(4,574)
3 Non Mark Up Income	4,867	14,653	9,266	7,885
Total Income	5,390	17,185	11,527	9,975
4 Non-Mark Up Expenses	(576)	(2,015)	(1,655)	(1,123)
5 Provisions/Write offs/Reversals	(28)	(1,175)	(364)	(1,034)
Pre-Tax Profit	4,786	13,995	9,508	7,818
6 Taxes	(1,060)	(2,965)	(1,626)	(1,474)
Profit After Tax	3,727	11,030	7,882	6,344
C RATIO ANALYSIS				
1 Cost Structure				
Net Mark Up Income / Avg. Assets	0.2%	0.5%	1.9%	2.4%
Non-Mark Up Expenses / Total Income	10.7%	11.7%	14.4%	11.3%
ROE	29.2%	23.9%	19.7%	17.8%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	5.5%	6.3%	31.2%	35.3%
Capital Adequacy Ratio	19.4%	19.7%	24.5%	34.0%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	31.0%	67.3%	63.1%	92.3%
(Advances + Net Non-Performing Advances) / Deposits	665.6%	362.4%	436.7%	505.6%
4 Credit Risk				
Non-Performing Advances / Gross Advances	2.0%	2.0%	3.7%	6.8%
Non-Performing Finances-net / Equity	-2.1%	-2.1%	-1.3%	-0.7%

Credit Rating

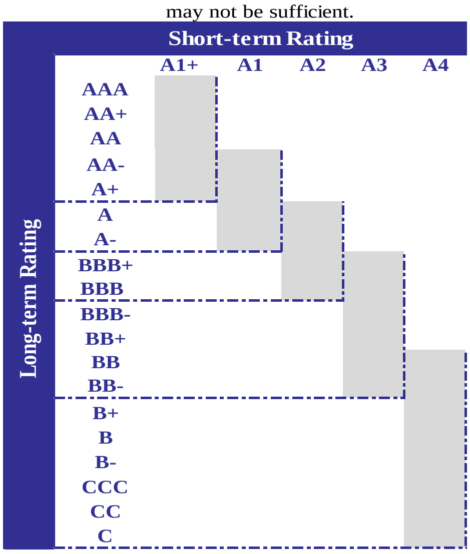
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

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

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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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)

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)
Proprietary Information