



**The Pakistan Credit Rating
Agency Limited**

Issue VI, June 2015



PACRA *INSIGHT*

The Best Vision is INSIGHT

Malcolm Forbes

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Senior Manager – Criteria

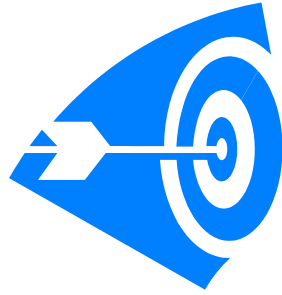
Inside....

1. PACRA **Rating Universe**
2. Pakistan **Rating Industry**
3. Credit **Risk**
4. PACRA **Capacity Building Endeavors Series**
 - i. Human Resource Training
 - ii. Public Awareness Programs
 - iii. Capital Market Development

New Section

PACRA Insight is a medium to communicate with the users of ratings

– harmonizing knowledge; assimilating expertise....in essence, leading the rating industry's development along high standards of integrity and transparency



PACRA Rating Universe

Composition, Size, Activity & Developments



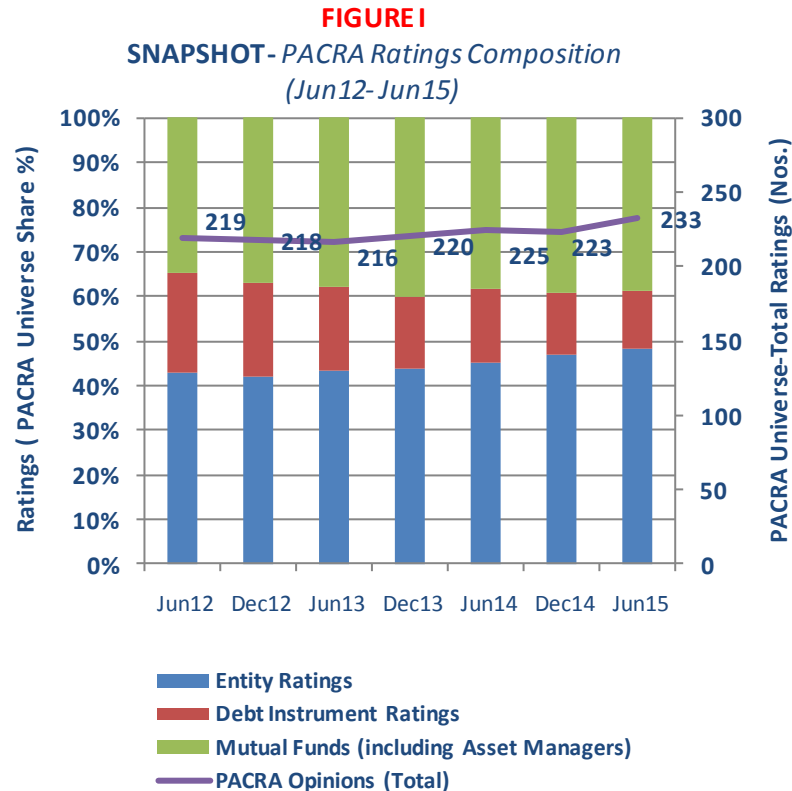
Entity Ratings

Debt
Instrument
Ratings

Mutual Funds
(including Asset
Managers)

Developments

PACRA Rating Universe – *Composition*



- **Universe composition** - Dominated by entity ratings followed by various kinds of opinions for asset manager companies (AMCs) and instrument ratings
- New instrument issuance yet to pick up pace
- PACRA expands its grading menu to include Security Agency Grading
- Assigns its first “*Security Grading*” to Wackenhut Pakistan (Pvt.) Limited on October 25, 2014

Pakistan Rating Universe – *Dual Ratings*

Dual Ratings

PACRA

JCR-VIS

Sr. #		Current Rating	Rating Action / Dissemination Date	Current Rating	Rating Action / Dissemination Date
1	AKD Investment Management	AM3	Maintain / (16-Jun-15)	AM3	Upgrade / (10-Apr-15)
2	AlBaraka Bank (Pakistan)	A	Maintain Positive Outlook / (26-Jun-15)	A	Maintain / (29-Jun-15)
3	Askari General Insurance	A+	Maintain / (05-Jan-15)	A+	Maintain / (15-Apr-15)
4	EFU General Insurance	AA+	Initial (30-Jun-15)	AA+	Maintain (24-Jun-15)
5	Fatima Fertilizer	AA-	Upgrade / (27-Nov-14)	AA-	Initial / (16-Apr-14)
6	Faysal Bank	AA	Maintain (22-Jun-15)	AA	Maintain / (30-Jun-15)
7	Jubilee General Insurance	AA+	Maintain / (05-Jan-15)	AA+	Maintain / (30-Dec-14)
8	K-Electric	AA-	Upgrade / (11-Jun-15)	AA	Upgrade / (01-Dec-14)
9	National Bank of Pakistan	AAA	Initial (30-Jun-15)	AAA	Maintain (30-Jun-15)
10	Tameer Microfinance Bank	A+	Maintain / (27-Feb-15)	A+	Maintain / (17-Apr-15)
11	The Bank of Khyber	A	Maintain / (30-Jun-15)	A	Maintain / (30-Jun-15)
12	The Pakistan General Insurance	A-	Maintain / (9-Jun-15)	A-	Maintain Positive Outlook / (12-Dec-14)
13	The Universal Insurance	BBB-	Downgrade Negative Outlook / (06-Jan-15)	BBB	Maintain Negative Outlook / (24-Nov-14)

PACRA

Pakistan

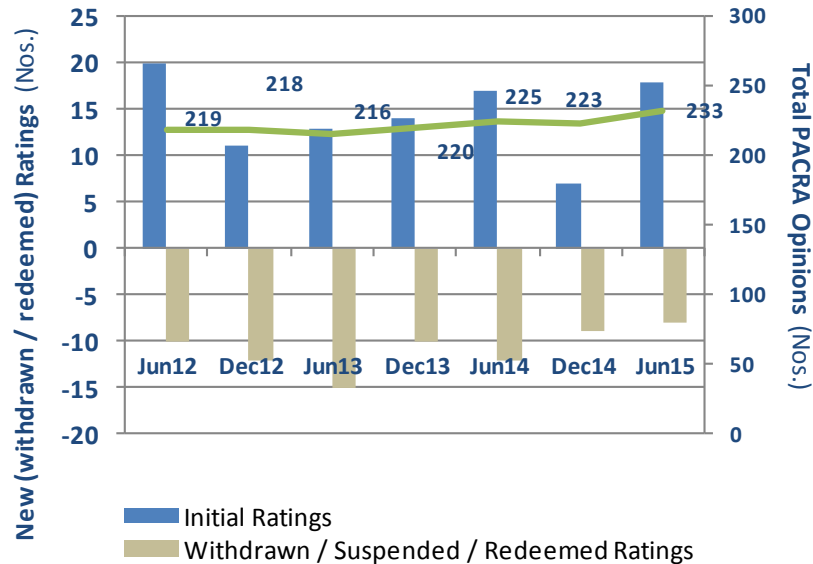
Credit Risk

Sector View

PACRA Rating Universe – *Entry / Exit*

FIGURE II

SNAPSHOT - PACRA Ratings Universe Growth
(Jun12 - Jun15)



PACRA Rating Universe – *Entry / Exit* (FY15)

Growth	3.5% Eight (8) additions	
	Entry	Exit
	25	17
Entity	16	6
Debt Instrument	3	9
Mutual Funds (including asset managers)	6	2

PACRA ENTITY RATING UNIVERSE (Entry / Exit) (For Fiscal Year ended June 30, 2015)							
Initial Entities		Initial Long-Term Ratings		Withdrawn / Suspended Entities		Last Long-Term Ratings	
Financial Institutions							
		Rating Assigned	Date			Rating Assigned	Date
1	Asiacare Health & Life Insurance	A-	20-Jan-15	1	Askari Bank	AA	22-Dec-14
2	EFU General Insurance	AA+	30-Jun-15	2	KASB Bank	B	08-May-15
3	MCB-Arif Habib Savings & Investments	AA-	12-Mar-15	3	Pak China Investment Company	AA	13-May-15
4	National Bank of Pakistan	AAA	30-Jun-15	4	Silver Star Insurance (Suspended)	A-	15-Jun-15
5	Pak Brunei Investment Company	AA+	04-Jun-15				
6	Pak Qatar General Takaful	A	19-Mar-15				
7	Sindh Insurance	A-	28-Jan-15				
Corporates							
8	Cherat Cement	A-	24-Feb-15	5	Tri-Pack Films	A+	14-Jul-14
9	Chiniot Power	A-	31-Dec-14	6	Maqbool Textile Mills Limited	BBB+	07-May-15
10	Dawood Hercules Corporation	A+	12-Jan-15	<u>Of the Withdrawn Entities:</u> •Askari Bank has switched to JCR-VIS •KASB Bank has ceased to exist merger with and into BankIslami Pakistan Ltd. •Pak China Investment Company has switched to JCR-VIS •The ratings of Silver Star Insurance stand suspended •Tri-Pack Films and Maqbool Textile Mills have has thus far chosen to remain unrated			
11	Engro Energy Terminal	A-	31-Dec-14				
12	Nishat Hotels & Properties	A-	31-Dec-14				
13	Pak Elektron	A-	12-dec-14				
14	Security & Management Services	BBB+	29-Apr-15				
15	Wakenhut Pakistan	BBB	29-Apr-15				
16	Maqbool Textile Mills	BBB+	28-Nov-14				
PACRA Pakistan		CREDIT RISK		SECTOR VIEW			

Of the Withdrawn Entities:

- Askari Bank has switched to JCR-VIS
- KASB Bank has ceased to exist | merger with and into BankIslami Pakistan Ltd.
- Pak China Investment Company has switched to JCR-VIS
- The ratings of Silver Star Insurance stand suspended
- Tri-Pack Films and Maqbool Textile Mills have thus far chosen to remain unrated

PACRA DEBT INSTRUMENT RATING UNIVERSE (Entry / Exit)
(For Fiscal Year ended June 30, 2015)

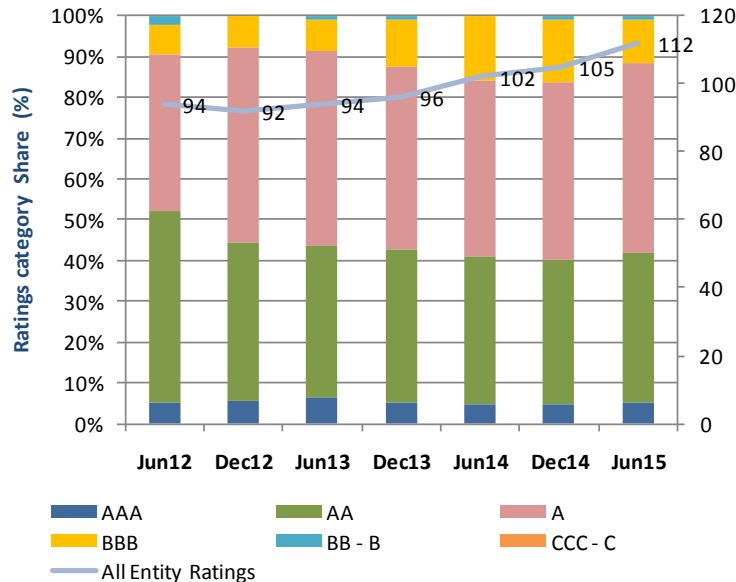
[Initial / Preliminary Ratings] Issuers Debt Instruments		Issue Size (PKR Mln)	Initial / Preliminary Debt Instrument Ratings	
			Rating Assigned	Date
1	Pak Elektron Limited Sukuk I; issued Sept07; restructured Jun13	1,200	A-	06-Jan-15
2	Pak Elektron Limited Sukuk II; issued Mar-08; restructured Jun13	1,100	A-	06-Jan-15
3	Soneri Bank Limited TFC II; issued Jul15	3,000	A+	08-May-15
	Total Issue Size	5,300		
[Withdrawn Ratings] Issuers Debt Instruments			Previous Debt Instrument Ratings	
	No instruments were withdrawn during this period			

*** FY15 has 9 Debt Instrument Redemptions

Entity Rating Universe - Composition

FIGURE III

PACRA Entity Ratings Composition & Growth
(Jun12 - Jun15)



Sector-Wise Distribution (FY15)

Heavy-weight Sector	Concentration (%) Entity Ratings (nos.)
General Insurance	17% (19)
Commercial Banks	15% (17)
Independent Power Producers	12% (13)

Broad Sectoral Concentration

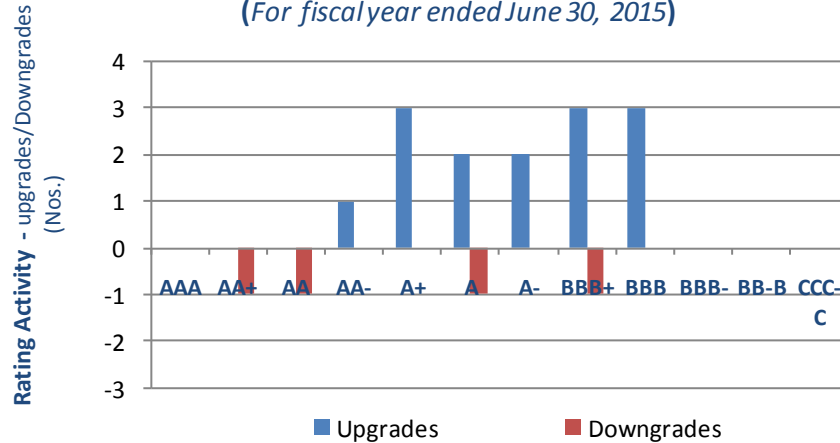
Financial Institutions (10 unique sectors) - **53%** (59)

Corporates (15 unique sectors) - **47%** (53)

Entity Rating Universe – Rating Activity

FIGURE IV

Entity Rating Activity across Rating Categories
(For fiscal year ended June 30, 2015)



Rating Activity – Entities (FY15)

Upgrades	Downgrades
14	5*

* **Sui Southern Gas Company's** short-term rating was downgraded from "A1+" to "A1" whereas its long-term rating was maintained at "AA-". Hence, this downgrade is not reflected in **Figure IV**.

Multinotch Upgrades: 1

1. Maple Leaf Cement (From BBB to A-)

Multinotch Downgrades: 1

1. The Universal Insurance Company (From BBB+ to BBB-)

Entity Rating Universe – *Rating Outlook Analysis*

Ratings Outlook Analysis		
	Positive	Negative
Opening @ Jan 01, 2015	8	5
Translated in Rating Change (-)	5	2
Translated in Outlook Change (-)	0	1
Maintained (+)	3	1
Ratings Not Reviewed (+)	0	0
Withdrawn (-)	0	1
During 2HFY15: New (+)	9	4
Opening @ Jul 01, 2015	12	5

Ratings Outlook Analysis		
	Positive	Negative
Opening @ Jul 01, 2014	11	5
Translated in Rating Change (-)	3	0
Translated in Outlook Change (-)	0	0
Maintained (+)	8	5
Ratings Not Reviewed (+)	0	0
Withdrawn (-)	0	0
During 1HFY15: New (+)	0	0
Opening @ Jan 01, 2015	8	5

Rating outlook 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

Entity Rating Universe – *Rating Outlook Analysis*

Carrying *an* Outlook @ 01-Jul-15

Positive (12)	Negative (5)
Al-Baraka Bank (Pakistan)	Pak Libya Holding Company
Autosoft Dynamics	Sui Northern Gas Pipelines
Habib Insurance Company	Sui Southern Gas Pipelines
Adamjee Insurance Company	SME Bank
Adamjee Life assurance Company	Universal Insurance Company
Atlas Power	
Bank Alfalah	
Engro Corporation	
First Woman Bank	

▪ **Pakistan State Oil** experienced a DOWNGRADE even though it carried a POSITIVE OUTLOOK preceding the “Downgrade” rating action (**14-May-15**)

▪ **IGI Investment Bank** experienced an outlook change from NEGATIVE to POSITIVE (**14-Jan-15**)

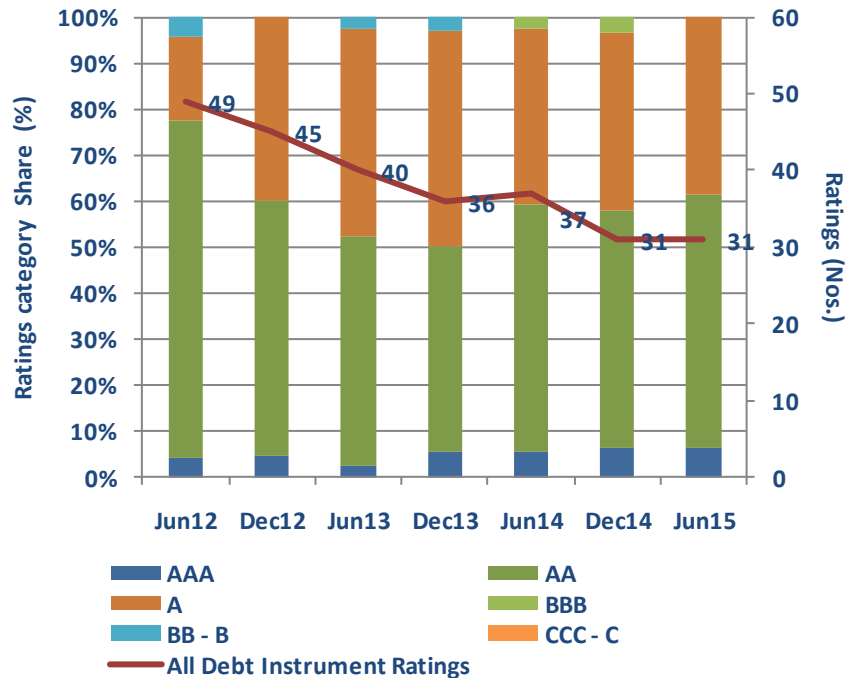
▪ Both **Sui Northern Gas Pipelines** and **Sui Southern Gas Pipelines** had a fresh NEGATIVE OUTLOOK assigned to their ratings after the former had its long-term and short-term ratings downgraded (**04-May-15**) and the latter had its short-term rating downgraded (**26-Jun-15**)

Debt Instrument Rating Universe - *Composition*

FIGURE V

SNAPSHOT - PACRA Debt Instrument Ratings Composition & Growth

(Jun12- Jun15)



✓ For FY15, Fresh debt instrument ratings have remained sluggish (**FY15: 31 vs. FY14: 37**) and the universe has shrunk due to redemptions (**FY15: 9**)

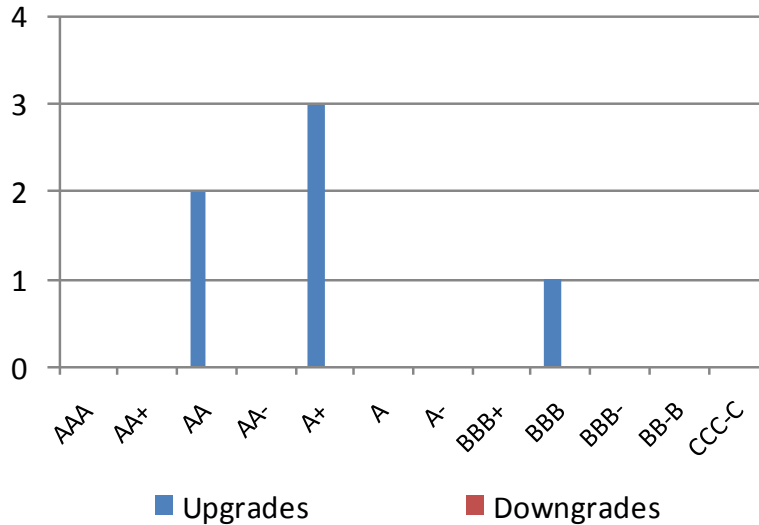
Debt Instrument Rating Universe - *Rating Activity*

FIGURE VI

Debt Instrument Rating Activity across Rating Categories

(For fiscal year ended June 30, 2015)

Rating Activity - upgrades/Downgrades (Nos.)



Rating Activity – Debt Instruments (FY15)

Upgrades

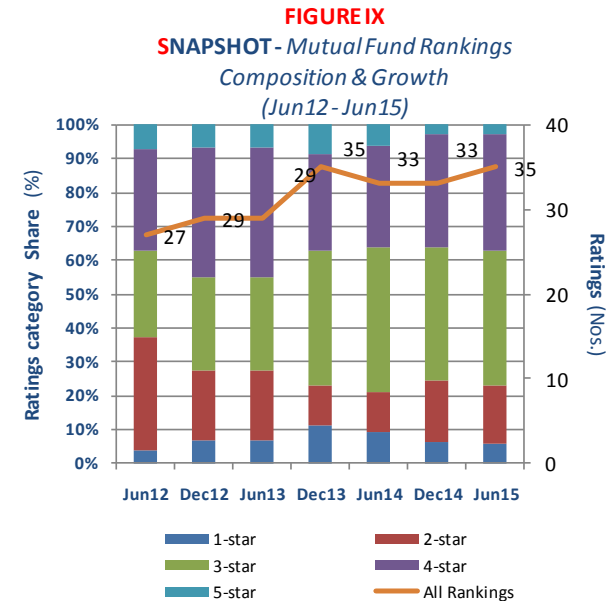
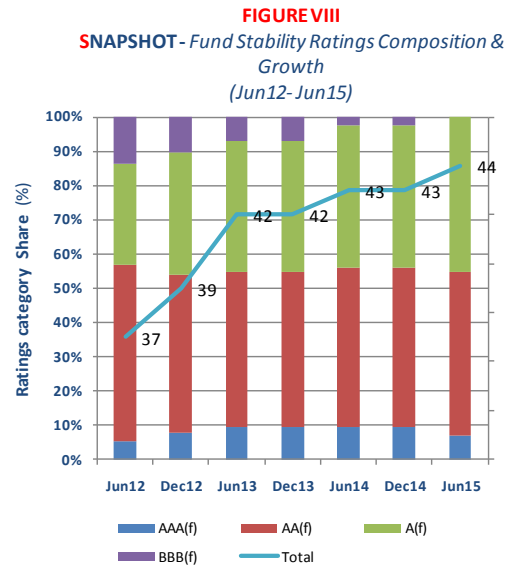
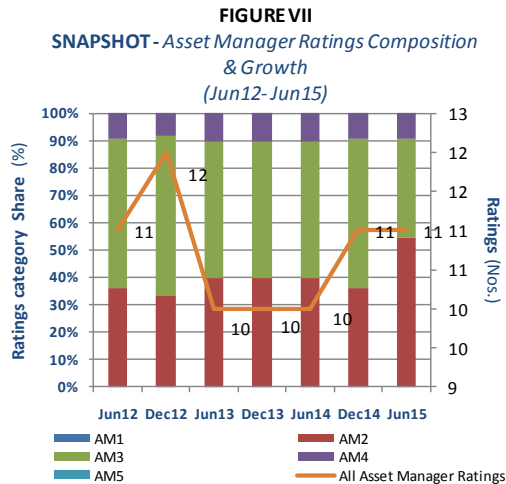
Downgrades

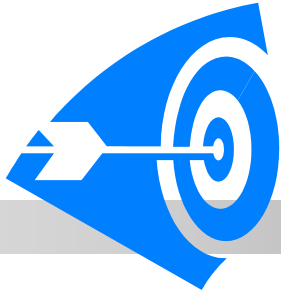
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Three (3) of the upgrades emanated from a single issuer – Engro Fertilizers

Asset Manager Ratings - *Opinions*





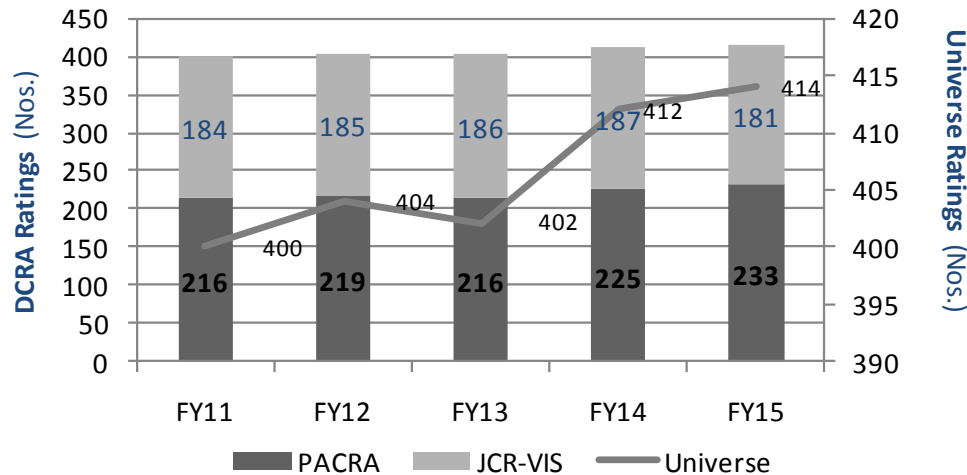
PAKISTAN Rating Industry

Composition, Size & Trends



Pakistan Rating Industry - Composition

FIGURE X
Pakistan Ratings Universe Growth
(FY11- FY15)



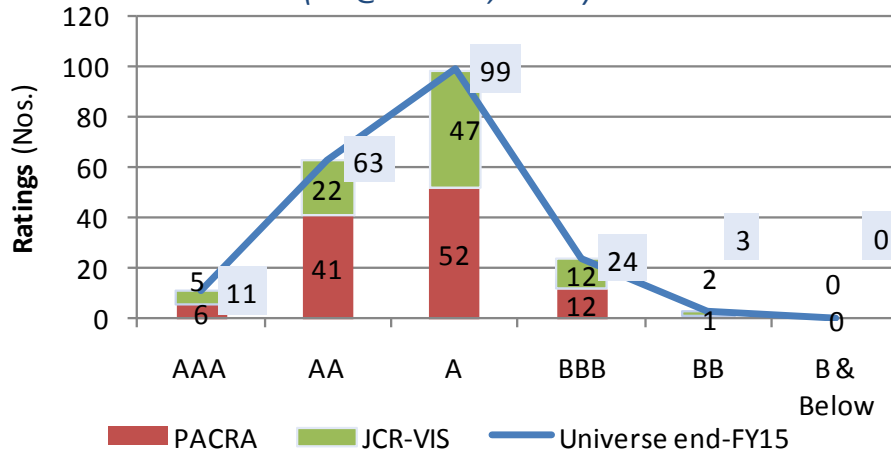
Pakistan's Ratings Universe is shared amongst two domestic credit rating agencies (DCRAs) – PACRA and JCR-VIS. Between themselves, they have 400+ public opinions. On a YoY basis, the universe size has seen an addition of only (2) new opinions.

Pakistan Rating Industry – Mean Rating

FIGURE XI

Pakistan Entity Ratings Universe Composition in Rating Categories

(As @ June 30, 2015)



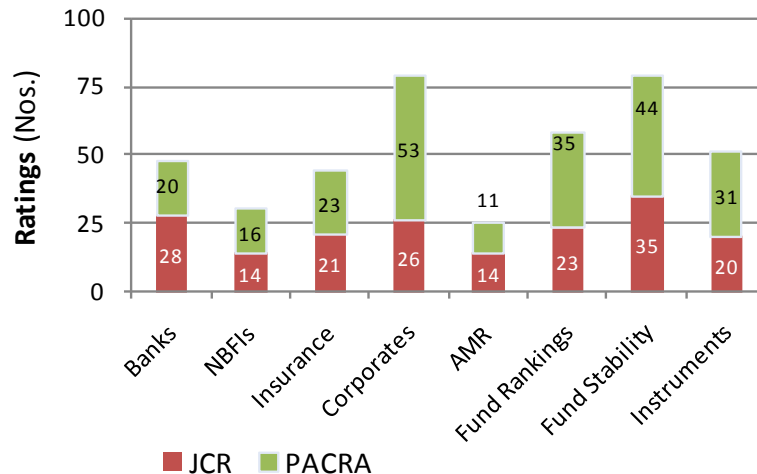
▪The ratings universe is concentrated mostly in high rating categories [**Mean Universe Entity Rating Category: ‘A’ (Single A)**] as shown in **FIGURE XI** as most rated entities are either financial institutions (where ratings are mostly mandatory by the regulator) or prominent corporate having very high credit quality.

Pakistan Rating Industry – *Product Range*

FIGURE XII

Pakistan Ratings Universe Composition in Rating Classes

(As @ June 30, 2015)



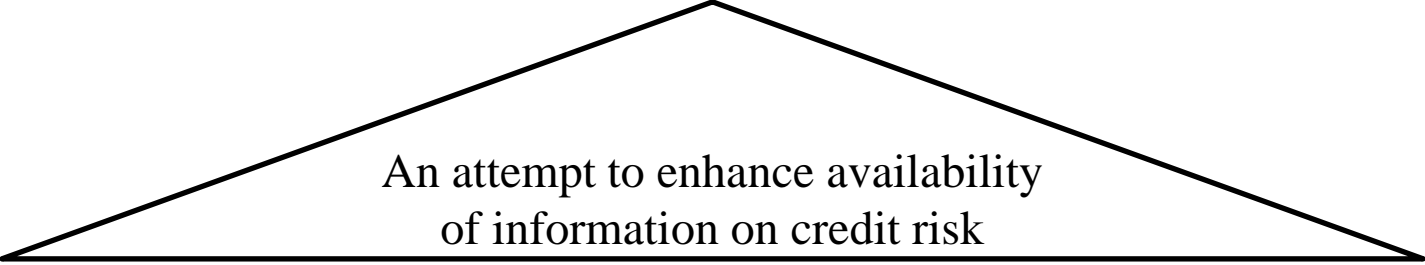
PACRA becomes the first rating agency in the world to assign a “Security Grading” on October 25, 2014

Rating penetration remains low in Pakistan, especially amongst corporates, where ratings are optional and primarily driven by their need to employ debt financing - mainly through debt instruments.

Pakistan Rating Industry – *SBP Initiative*

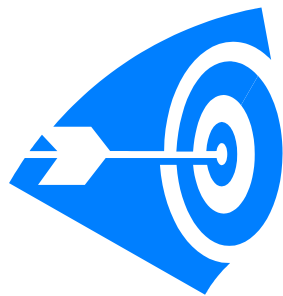
“Effective from **December 31, 2014**, all unrated private sector corporate entities with aggregate outstanding exposure from financial institutions (both fund-based and non-fund based) of PKR 5.0 billion or above, net of liquid assets, will attract risk weight of **115%**”

“Effective from **December 31, 2015**, all unrated private sector corporate entities with aggregate outstanding exposure from financial institutions (both fund-based and non-fund based) of PKR 3.0 billion or above, net of liquid assets, will attract risk weight of **125%**”



An attempt to enhance availability
of information on credit risk

State Bank of Pakistan BPRD Circular Letter No. 02 of 2015: Risk weight for Unrated Large Corporates – Implementation of Basel Capital Framework; issued January 09, 2015



3

Credit Risk

Comment



Rating
Action

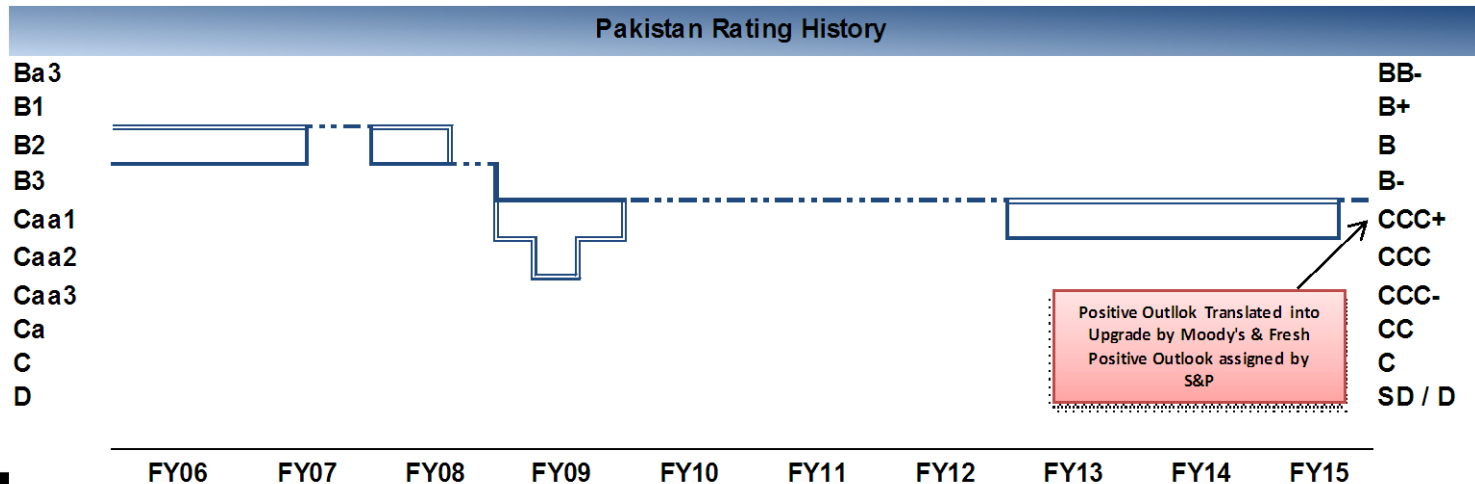
Rating
History

Rating
Rationale

Credit Risk – Sovereigns “NOT PRIME”

Sovereign Credit Rating Actions | PAKISTAN

	CURRENT		LAST	
	Moody's	S&P	Moody's	S&P
Rating Action	Upgrade	Maintain	Maintain	Maintain
Rating	B3 (11-Jun15)	B- (05-May15)	Caa1 (25-Mar15)	B- (19-Nov14)
Rating Modifier	Stable	Positive	Positive	Stable



Pakistan – Sovereigns “NOT PRIME”

Moody's (11-Jun15):

Rating Action: *Moody's upgrades Pakistan's bond ratings to B3 with a stable outlook*

“Key drivers for the rating action are expectations of:

1. Continued strengthening of the external payments position; and
2. Sustained progress in structural reforms under the government's program with the IMF.

As progress on these fronts becomes firmly entrenched, risks of default are receding relative to other sovereigns in the Caa1-rated category that are facing heightened external vulnerabilities.

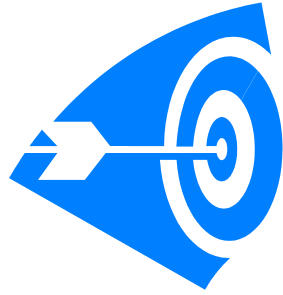
Upward triggers to the rating would stem from sustained progress in structural reforms that would remove infrastructure impediments and supply-side bottlenecks. This would improve Pakistan's investment environment and eventually aid a shift to a higher growth trajectory. A fundamental strengthening in the external liquidity position and meaningful reduction in the deficit and debt burden would also be credit positive.

Conversely, we would view a stalling of the ongoing IMF program or the withdrawal of other multilateral and bilateral support, a deterioration in the external payments position or a more unstable political environment to be credit negative.”

S&P (05-May15):

Rating Action: *Outlook On Pakistan Revised To Positive On Improved Growth, Fiscal And External Performance; 'B-/B' Ratings Affirmed*

“The positive outlook reflects our expectations of Pakistan's improved economic growth prospects, fiscal and external performance, and the supportive relationship of external donors over the next 12 months. We may raise our ratings on Pakistan if the following factors occur together with receding security risks and an improved business environment: GDP growth continues to be better than our expectation, exceeding our revised forecast of 4.6% over 2015-2017; or General government debt declines faster than our projection due to fiscal outperformance; or Gains in Pakistan's external performance continue to support the accumulation of reserves. We may revise the outlook back to stable if Pakistan's economic, fiscal, and external performance weakens again.”



PACRA Capacity Building

Endeavors, Initiatives, On-going Activities



Human
Resource
Training

Public
Awareness
Programs

Capital
Market
Development

PACRA Capacity Building Endeavors *Series*

Human resource Training

Capacity Building

PACRA arranges comprehensive presentation sessions on several key sectors of Pakistan's economy!!

Human Resource Training Sessions

Corporate Governance Principals – Non Listed Companies	Jul14
Refining – An Overview	Oct14
Asset Management Industry	Mar15
Commercial Banking Sector	Mar15
Microfinance Banks – An Overview	Mar15
General Insurance Sector - Update	Jun15

PACRA Capacity Building Endeavors *Series*

Public Awareness Programs

Capacity Building

PACRA Chief Operating Officer, Mr. Shahzad Saleem, spoke at Lahore School of Economics Business Conference elaborating upon the circular debt phenomenon in the power sector and the significance of sponsor in the evolution of a business !!!

PACRA Manager Business Development, Ms. Samiya Mukhtar, speaks on ratings awareness at a seminar arranged by IBIT, University of the Punjab!!



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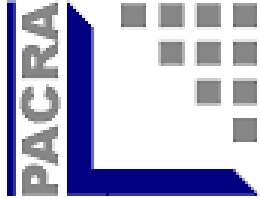
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About PACRA

PACRA – Pakistan's pioneer credit rating agency – is continuing its journey in its second decade of operations. The company distinguishes itself through a culture of constant innovation, improvement and service quality. PACRA offers a complete range of credit rating services. It has a comprehensive organizational structure and set of resources to support its business. PACRA team of 30 analysts comprises a mix of highly qualified business professionals and accountants. To date, PACRA has assigned over three thousand five hundred opinions

The Pakistan Credit Rating Agency

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