



Investment Corporation of Pakistan

Ratings (March 2005)

Investment Corporation of Pakistan (ICP)

Entity*	New	Previous
Short Term	A1+	A1+
Long Term	AA	-

* Applicable to senior unsecured creditors

Summary Data

PKR mln

	31-Dec-04	30-Jun-04	30-Jun-03
Total Assets	2,032	1,888	2,639
Equity	1,958	1,045	853
Net Income	189	442	1,137

*As per unaudited financial statements for the six months ended December 31, 2004

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Rating Rationale

- The ratings reflect the practically risk-free status of ICP, emanating from a completely depleted financing portfolio. The ratings also factor in its substantially diminished credit risk through adequate provisioning and continuing recoveries. The liquidity provided by substantial capital gains, augmenting the capacity of the Corporation to honour its short-term liabilities in a timely manner, is also a key factor.
- At IHEFY05, with all of its contractual obligations settled and equity forming 96% of total assets, ICP emerged with a strong financial profile. Having discontinued almost all its operations the Corporation currently engages in only two activities – recovery of non-performing loans (NPLs), and managing its equity portfolio. The loan portfolio by and large consists of NPLs, most of which are under litigation. Ninety-five percent of the loan portfolio has already been provided for, while recovery efforts are underway. During FY2004, recoveries of principal and interest amounted to PKR 116 million leading to a substantial reduction in net loans (FYE2004: PKR 26 million, FYE2003: PKR 68 million). With the ongoing recovery efforts, the significant provisioning allows ample coverage for current NPLs thereby reducing potential credit risk to a minimum.
- ICP's equity portfolio, as at IHEFY05, formed the major portion of total assets (77%), exposing ICP to significant market risk. However, in light of the current upsurge in the market and optimistic forecasts a significant downturn seems improbable. Nonetheless, the liquid nature of the investments continues to mitigate the market risk, while substantial revaluation surplus (PKR 724 million) and unappropriated profit (PKR 350 million) provide an effective cushion against any unforeseen capital loss.
- As compared to FY2003, the net income declined substantially during FY2004 (FY2004: PKR 442 million, FY2003: PKR 1,137 million). However, net income in FY2003 had largely constituted revenue from sale of management rights of ICP Mutual Funds (PKR 1,251 million). After discounting for this factor and the significant severance pay extended to relieved employees during FY2003, the net income was largely maintained on the back of hefty capital gains, substantial dividends and considerable reversal of provisions. In 1HFY05, the net income amounted to PKR 189 million, again backed by significant dividend income and capital gains. Going forward, dividends are expected to continue adding a stable stream to the bottom line, while capital gains, though volatile, are expected to continue as a principal contributor.

Background

- Investment Corporation of Pakistan (ICP) – a state-controlled Development Finance Institution – was established through the ICP Ordinance 1966, with leading financial institutions as its sponsors. The main objective of ICP was to strengthen the capital market in Pakistan, primarily through encouraging broader participation in listed equity securities. ICP's functions included underwriting public issues and equity participation, maintaining investment and deposit accounts, floating and managing closed-end mutual funds and trading in the stock market. ICP floated twenty-five Mutual Funds and a State Enterprise Mutual Fund (SEMF) with a view to offer opportunities of pooled investments to investors.
- ICP performed its core functions satisfactorily up until the late eighties when its financial position began to deteriorate after entering into project financing activity. Even though this was typically in the form of syndicated loans, ICP took a substantial direct exposure. The high incidence of non-performing loans continued to adversely impact the Corporation's performance over the years. Furthermore, the slump in the stock market in past years required hefty provisions against diminution in the value of the equity portfolio and resulted in substantial erosion in equity. Consequently, the Corporation was not able to generate enough income to meet operating expenses.
- After considering the option of re-structuring the Corporation, in June 2001, the Government decided to wind up ICP. In October 2002, the management rights of twenty-five mutual funds were sold in two lots as Lot-A and Lot-B. Through open bidding ABAMCO and PICIC acquired the managed rights of Lot-A and Lot-B respectively. In 2003, PICIC also acquired the management rights of the State Enterprise Mutual Fund (SEMF).
- In anticipation of its winding up, the Corporation had retrenched a substantial part of staff and paid off all its contractual liabilities. With the opinion that the winding up process would be completed within 12 months, PACRA had only assigned ICP a short-term rating. The Privatization Commission (PC), however, had recommended the privatization of ICP in April 2003, and in March 2004 it appointed financial and legal advisors for the ICP privatization transaction. The advisors have submitted their report to the PC and ICP management is of the view that the PC is actively engaged in the privatization process of the Corporation. Thus far the Corporation is performing limited operations while awaiting a decision from the PC. The exact time frame for completion of the privatization process has not yet been indicated. PACRA is, therefore, assigning the ratings with the assumption that until the privatization process is completed ICP will continue to function with its limited operations and not venture into any new business activities that could enhance the risk exposure.