



NATIONAL INVESTMENT TRUST LIMITED (NITL)

Asset Manager Rating

(December 2006)

AM2-

SUMMARY

- NITL has been assigned an Asset Manager rating of 'AM2-'. The rating reflects the company's strong franchise, sound control systems, and established infrastructure including its extensive outreach. Although the management's focus on preparing the entity for privatization has constrained the pursuit of aggressive marketing strategy, or other initiatives adopted by the industry in recent years for improving service standards, mainly linked with technological advancement, the entity has demonstrated a strong capacity to effectively manage the Fund, while also providing an improved level of service to investors. This was mainly a result of the reform process initiated under the guidance of the present Managing Director in early 2002, aimed at gradual restructuring of the portfolio through effective investment strategies, strengthening in-house research capabilities, streamlining of the systems and processes, and reinforcement of the overall control environment. These initiatives led to a substantial improvement in the performance of the Fund. Moreover, since the current M.D. has been instrumental in turnaround of the company, his continuity till the completion of the privatization process remains a critical rating factor. Meanwhile, pending the privatization, the rating would remain on rating watch.
- NITL, an unquoted public limited company, was established in the public sector in 1962 with a mandate to manage National Investment (Unit) Trust. The Fund, established under a Trust Deed executed between NITL as Management Company and National Bank of Pakistan as a Trustee, is the largest open-end mutual fund in the country, with net assets of over PKR 70bln at end-Sep06. The Fund has around 52,000 registered unit holders, out of which 51,000 are individual investors, representing 18% of the Fund's total net assets. Government of Pakistan controls NITL by virtue of its power to appoint the Managing Director, and majority shareholding in the company, directly and indirectly through government owned entities. The nine-member BoD, representing shareholders, mainly consists of bankers. In line with the Cabinet Committee on Privatization approval, the process for privatization of the management rights of the Fund is currently in process. Nevertheless, the time line and the business plan for NITL in the post-privatization scenario remain uncertain.
- The current Chairman and Managing Director, a Chartered Accountant with extensive experience in public and private sector financial institutions, joined office in October 2001 and initiated the process of revamping systems and strengthening portfolio management capabilities. The investment portfolio was effectively restructured by divesting some non-dividend yielding shares, and focusing on regular, and high dividend paying securities, which helped in improving the overall dividend income of the Fund. At the same time, the management continues to explore opportunities for negotiated block deals, which has helped in disposing investments at prices substantially above the prevailing market prices. Meanwhile, emphasis has been placed on strengthening the research division through hiring qualified and experienced professionals, and adoption of the latest analytical tools and processes. The company follows a structured investment process, and has demonstrated a fairly high level of independence and objectivity in making investment decisions. An Investment Committee, comprising the Chairman & M.D., Head of Asset Management (HoAM), Head of Finance, Head of Marketing, and Head of Corporate Governance manages the Fund's portfolio. The HoAM, an MBA, is with NIT for around 16 years.
- With a head count of around 160 employees, the company is adequately staffed, with senior management comprising experienced professionals. NITL has an extensive distribution network of 19 branches in 15 major cities of the country, and currently more than 100 authorized branches of leading banks also deal in the Fund's units. The substantial growth in Fund's size in recent years is attributable mainly to the appreciation in the value of the investment portfolio, while the growth in number of investors and units in issue have remained limited – an outcome of the uncertainty arising due to the ongoing privatization process. The company's exiting IT infrastructure, though adequately supporting its operations, does not have high integration and sophistication. Meanwhile, the quality of reporting and communication with investors also needs improvement. While focusing on its mandate to meet the objectives of privatization, the management is continuing with the upgradation of IT systems initiated earlier, and in this regard has recently implemented an advanced portfolio management system. The overall control environment has been strengthened through refinement of the existing policies and procedures. Meanwhile, the liquidity management has also shown considerable improvement.

Analysts

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