

RATINGS (JUNE 2009)
PAK IRAN JOINT INVESTMENT COMPANY (PIJC)

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

FINANCIAL DATA

PKR (mln)

	Mar-09	Dec-08	Dec-07
Total Assets	6,446	5,815	4,193
Equity	5,554	5,446	4,128
Net Income	108	618	128
ROA %	7.1	6.4	6.1
ROE %	7.9	6.7	6.2
Equity/Total Assets %	86.1	93.6	98.4

ANALYSTS

Salman Malik
+92 42 5869504
smalik@pacra.com

Moin Khalid
+92 42 5869504
moin@pacra.com

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the joint ownership of PIJC by the governments of Pakistan and Iran, implying strong support to the company. Furthermore, the ratings take into account the strong risk absorption capacity emanating from a robust equity base and strong liquidity. While operating in an increasingly competitive environment, the management's success in being able to capitalize on its identified niche, project financing, and developing diversified revenue streams through strategic investments remains to be seen.
- The ratings are dependent on the management's ability to instill an effective risk management framework alongwith stringent system and processes to manage the risks in its targeted areas. At the same time, any politically motivated intervention in the company's affairs negatively impacting corporate governance standards would be critical for the ratings. The management's success in tapping business potential and developing stable revenue streams could have positive implications on the ratings.

ASSESSMENT

- To establish the company as a viable and sustainable financial institution, the Board of PIJCL has approved the development of the following lines of business: 1) Treasury and Investments, 2) Corporate Finance, 3) Loans and Advances, and 4) Strategic Investments specializing in Project Financing. The identified business lines, though largely similar to other DFIs, focus on the project financing business by promoting investment flow from Iran.
- Since commencement of its operations, the management has followed a conservative approach towards growth, as it intends to develop the requisite infrastructure before actively pursuing its business plan. PIJC has achieved modest performance in terms of business growth. It has mainly deployed its share capital in low-risk avenues including money market, government securities, and deposits with banks, while the finances portfolio remains modest. Meanwhile, exposure in stock market was nominal. The asset composition has largely insulated the company from the recent stock market crash and liquidity crises.
- The management is in the process of designing and implementing a framework to streamline the risk management systems. In this regard, policies have been formulated with criteria to measure and monitor risk factors. However, the implementation of such policies is still in process.
- Meanwhile, team-building activities are expected to continue, as the management is in the process of hiring middle tier managers in order to assist the existing departmental heads.
- Going forward, the management is targeting growth. It plans to significantly build the core loan book, for which it has a target of PKR 3,666mln, including TFCs, by end-09. Meanwhile, the company would also deploy funds, to be mobilized through moderate leveraging, in low-risk fixed-income mutual funds and government securities. PIJC plans to expand into various dimensions of the financial industry. In addition to building from scratch in preferred businesses, the management is exploring acquisitions. The company intends to seek the following areas for diversifying its business operations: brokerage, asset management and private equity. However, materialization of these, in addition to requisite approval by the regulators, is dependent on availability of suitable opportunities.
- Owing to the limited advances book (PKR 1,225mln, including TFCs and Sukuk bonds), the company's credit risk exposure remains low. However, the company has experienced recovery issues with respect to two money market exposures. In this regard, the management is making concerted efforts to secure its facilities.
- PIJC, with limited operations, has a strong capital structure. The company with capital of PKR 5bln as at end-08 is compliant with minimum capital requirements. The company intends to increase its share capital by PKR 1bln in CY09, to meet minimum capital requirement. Given the enhanced equity base, the company's risk absorption capacity is expected to remain strong.
- The company's major source of funding is through money market borrowing. Going forward, in order to facilitate growth, the company plans to resort to stable long-term sources of funding. Given the substantial cushion available in the CAR and further capital injection, the overall leveraging would remain low.

PROFILE

- Pak-Iran Joint Investment Company Limited was established in January 2007, and commenced operations on May 29, 2007 as a Development Finance Institution (DFI). It is a joint venture investment company that is equally owned by the Governments of Islamic Republic of Pakistan through the Ministry of Finance (MoF) and the Islamic Republic of Iran through Iran Foreign Investment Company (IFIC) respectively. The objective of the company is to promote economic development, while facilitating investments from Iran to Pakistan.
- According to the Joint Venture Agreement, both the partners would have equal representation on the six-member Board. Mr. Ahmad Jamali, the Chairman of the Board, is currently Director General for the General Directorate for Foreign Investments, Iran. Mr. Aizaz Sarfraz, the Managing Director and CEO of PIJC, an MBA, possesses experience in the financial sector in Pakistan and abroad and is assisted by a team of experienced professionals. In order to assist the functions of the board, four committees have been formed including (i) Audit Committee, (ii) Risk Management Committee, (iii) Executive Committee and (iv) Human Resource and Compensation Committee (HRCC).