



Pak Iran Joint Investment Company Limited (PIJICL)

RATINGS (MAY 2008)

PAK IRAN JOINT INVESTMENT COMPANY LIMITED

	Initial
Entity	
Long Term	AA-
Short Term	A1+

FINANCIAL DATA

PKR (mln)

	31-Dec-07
Total Assets	4193.2
Equity	4128.1
Net Income	128.1
ROA %	6.1
ROE %	6.2
Equity/Total Assets %	98.4

ANALYSTS

Susan S. Sharaf
+92 42 5869504
susan@pacra.com

Moin Khalid
+92-42-586 9504
moin@pacra.com

RATING RATIONALE & KEY DRIVERS

- The ratings reflect the joint ownership of PIJICL by the governments of Pakistan and Iran, implying strong support to the company. At the same time, the ratings reflect the sound risk absorption capacity of the company, an outcome of a robust capital structure and a conservative stance towards risk. The company is in the process of developing the key management team and building the requisite infrastructure before actively pursuing its business plans. The identified business lines though largely similar to other DFIs, focuses on project financing business by promoting investment flow from Iran. However, the management's success in carving out a distinctive niche in the increasingly competitive operating environment remains to be seen.
- The ratings are dependent on the management's ability to build a strong management team and systems and processes, while instilling an effective risk management framework. At the same time, the management's success in effectively tapping the identified niche and developing stable revenue streams will have positive implications on the ratings.

ASSESSMENT

- To establish the company as a viable and sustainable financial institution, the Board of PIJICL has approved the development of the following lines of business: 1) Treasury, 2) Credit, 3) Investment Banking and Advisory / Project Finance, and 4) Strategic Investments specializing in Project Financing while also facilitating trade business. In this regard, the management aims to facilitate investment flow from Iran that has a large industrial base, to Pakistan. Additionally, benefiting from the common physical border of the two countries, PIJICL intends to enhance trade related activities. Moreover, the company would capitalize on infrastructure projects in Gawadar, the newest port in the region and any such projects related to promoting the Pak-Iran relationship. The Board has recognized opportunities for the company mainly in areas of oil and gas, real estate, and energy.
- PIJICL plans to build a sizeable portfolio of strategic investments. The company intends to seek the following areas for diversifying its business operations; brokerage, asset management, private equity and venture capital fund management, real estate development, and insurance. However, materialization of these, in addition to requisite approval by the regulators, is dependent on availability of suitable opportunities.
- Going forward, the management is targeting to gradually build its core loan book, for which it has a target of PKR 2,500mln, including TFCs, by end-08. Meanwhile, the company would also deploy funds, to be mobilized through moderate leveraging, in low-risk fixed-income mutual funds and government securities, while propriety equity portfolio would be restricted to 20% of the equity base.
- 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. Meanwhile, the company is making efforts towards development of the requisite human resource. At the same time, it has achieved only a modest performance in terms of business growth. It has mainly deployed its share capital in low-risk avenues including money market, fixed income mutual funds, and deposits with banks, while the finances portfolio remains modest. Meanwhile, exposure in stock market remained nominal. The bottom line during 2007 was mainly a function of interest income earned on investments and bank deposits.
- Given the competitive environment, gradual deployment of capital in high yielding avenues, and incidence of higher operating costs, the profitability is likely to be constrained in the initial years. The impact on ROE would be more profound compared to ROA due to large equity base and low leveraging. Going forward, the company's standing in the increasingly competitive financial sector landscape of Pakistan would be dependent on the speed and efficacy with which the management builds the requisite infrastructure, more importantly the human resource, and implements its business plan by capitalizing on its inherent strengths.
- The management is at an initial stage of designing and implementing the risk management framework to identify, monitor and manage the various risks that the company is exposed to. In this regard, PIJICL intends to formulate the major policies and procedures by end-Oct08. Given the management's conservative stance towards risk and plans to instill effective credit risk management policies and procedures before pursuing active expansion in loan book, the exposure to credit risk is expected to be low.
- PIJICL with limited operations has a strong capital structure. The company with capital of PKR 4bln as at end-07 is also compliant with minimum capital requirements. Going forward, the company intends to progressively increase its share capital by PKR 1bln each year in 08 and 09, to meet minimum capital requirement prescribed by the SBP. Given the enhanced equity base and management's conservative stance towards risks the risk absorption capacity is expected to remain strong going forward.

PROFILE

- Pak-Iran Joint Investment Company Limited (PIJICL) 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). PIJICL operates through its head office in Karachi, with a branch office in Tehran, Iran. IFIC has the objective to manage and expand Government of Iran's holdings abroad and currently owns majority of Iran's foreign investments. As a holding company, IFIC provides financing and related services and has investments in areas of energy, telecom and IT, banking, insurance, mining, oil, gas, and petrochemicals. Currently IFIC has ventures in different countries mainly in Europe followed by Africa, South America and the Middle East.
- 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 PIJICL, an MBA, possesses extensive experience in the financial sector in Pakistan and abroad. PIJICL is in the process of building a management team and developing effective systems and processes. However, the key management positions filled to date include, qualified and experienced professionals.