



The Pakistan Credit Rating Agency Limited

Rating Report

Energy Infrastructure Holding (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Feb-2019	A-	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Energy Infrastructure Holding (Private) Limited's association with its Parent Company, Jahangir Siddiqui & Co. Ltd. (JSCL). The Company started its journey in 2008 to invest in energy projects. The Company, through its subsidiaries, JS Petroleum and JS Fuel has entered in LPG Storage and Oil Marketing businesses. Both the projects are in initial stages and have a medium term gestation period and will take some time to stabilize and become dividend yielding investments. The projects are predominantly being funded by the ultimate Parent Company, Jahangir Siddiqui & Co. Ltd. through equity injection in the Company. Meanwhile, the Company has a portfolio of listed equity investments for steady dividend inflows. The Company has an adequate financial profile, represented by 100% equity base. The Company is expected to limit borrowings to the extent of debt ratios that finance cost is adequately covered through dividend income.

The ratings are dependent on continued support of the Parent Company. Realization of the envisioned investment plans and formalization of a strong and effective mechanism for monitoring performance and providing holistic direction as a HoldCo are critical. Excessive leveraging, leading to weak coverages and profitability, will have negative impact on ratings.

Disclosure

Name of Rated Entity	Energy Infrastructure Holding (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology Holding Company (Jun-18)
Related Research	Sector Study Holding Company(Aug-18)
Rating Analysts	Adnan Dilawar adnan@pacra.com +92-42-35869504



Profile

Legal Structure Energy Infrastructure Holding (Private) Limited (the Company) is a private limited company incorporated in Pakistan under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The registered office of the Company is situated at 6th Floor, Faysal House, Shahra-e-Faisal, Karachi.

Background The Company was incorporated on April 15, 2008. It was formed to invest in energy, petroleum and infrastructure projects.

Operations The Company is engaged in energy, petroleum and infrastructure businesses. The Company's investments comprise 1) Strategic Investments and 2) Short-term Investments. Strategic Investments include subsidiaries, JS Petroleum and JS Fuel for LPG Storage and Oil Marketing businesses. The Company also has ~5% stake in EFU General Insurance Limited. Short-term investments include listed equity investments.

Ownership

Ownership Structure The Company is a wholly owned subsidiary of Jahangir Siddiqui & Co. Ltd (JS Group).

Stability Ownership of the Company is seen as stable as no change is expected.

Business Acumen JS Group is a well-renowned business group of Pakistan. The Group has varied interests in the financial sector, including asset management, financial advisory, brokerage, insurance and banking. JS Group also has investments in industries namely textile, energy, infrastructure, media services, telecom and technology.

Financial Strength The Company, being wholly owned by JSCL derives its financial strength from its parent company. At the end Sept'18, JSCL had a consolidated asset base of ~PKR 422bln which is supported by an equity base of ~PKR 36bln. Consolidated debt exposure is ~PKR 62bln with sizeable deposits emanating from JS Bank of ~PKR 308bln. Its topline clocked in at ~PKR 25bln with the bottom-line closing in at ~PKR 1bln for 9MCY18.

Governance

Board Structure BoD comprises three members, two of whom are executive members, including the CEO. Limited size of the Board, and absence of independent oversight indicates room for improvement in the overall governance framework.

Members' Profile The Board is chaired by Mr Hasan Shahid, a fellow member of the Institute of Chartered Accountants of Pakistan. He is equipped with over 18 years of experience in the fields of finance, auditing, internal controls evaluation and re-designing, compliance and taxation. He also holds directorship in subsidiary companies. He is also Director Finance and Company Secretary in JSCL.

Board Effectiveness There were four board meetings held during FY18, which had 100% attendance.

Financial Transparency External auditors are EY Ford Rhodes. They issued an unqualified audit report for financial year ended Dec17.

Management

Organizational Structure Currently, the management of JSCL is looking after the affairs of the Company. However, a separate management team will be hired to oversee the operation requirements of the Company, going forward.

Management Team Mr. Najmul Hoda Khan has been appointed as the CEO of the Company. He is also serving as the CFO of parent company, JSCL. He is an associate member of the Institute of Chartered Accountants of Pakistan.

Effectiveness There are no management committees in place which indicates room for improvement.

MIS To manage trading portfolio, the Company uses an in-house developed MIS system which demonstrates transactional data for Ready and Deliverable Future Markets contracts for buy and sells transactions.

Control Environment Management accounts and reports such as variance analysis are solicited from the subsidiaries on a monthly basis and after review, are presented to the ultimate parent company (JSCL) for reporting purposes.

Business Risk

Industry Dynamics Hold Cos are an emerging phenomenon in Pakistan. Some operating companies that held strategic investments gradually for the purpose of diversification and growth eventually demerged from their operations and structured itself so that holding companies could concentrate their investments for the purpose of business growth and diversification.

Relative Position In comparison to the major players in the Holding Companies, the Company is yet to evolve as a Holding Company. However, the Parent Company, JSCL is well positioned in the industry as it has structured itself into a pure Investment Holding Company for the purpose of oversight of its investments. It has a consolidated asset base of ~PKR 422bln as at end-Sept18.

Revenues The Company's topline comprises dividend income and capital gains. During CY18, dividend income increased by 36% from ~PKR 101mln in CY17 to ~PKR 138mln in CY18, 85% of which emanated from EFU General Insurance Limited and EFU Life Assurance Limited. However, declining performance of the Country's equity market resulted in unrealized capital losses from held for trading investments (CY18: ~PKR 13mln loss, CY17: ~PKR 19mln profit) and decline in gain on disposal of investments (CY18: ~PKR 10mln, CY17: ~PKR 100mln). As a result, revenue stream witnessed a decrease of ~38% YoY clocking in at PKR ~160mln (CY17: PKR ~260mln). Dividend stream, emanating from investments in listed equity securities, specifically insurance sector, is expected to remain stable, going forward.

Margins Operating and administrative expenses remained under control during the year (CY18: ~PKR 10mln, CY17: ~PKR 11mln), however, net profit margin declined to 74% in CY18 from 84% in CY17 with bottom line closing at ~PKR 120mln.

Sustainability The Company is not expected to start receiving dividends from its subsidiaries any soon. However, it intends to rely on stable dividend stream from its insurance investments.

Financial Risk

Working Capital There are no short term borrowings as at end Dec' 18. However, the Company intends to undertake a PKR 300mln running finance facility at markup of 3MK + 2% p.a., by placing listed equity securities as collateral in CY19.

Coverages Owing to zero leverage at the moment and in line with the Company's plan to inject capital in the form of borrowings, EBIT/Interest Coverage Ratio is expected to remain in the range of 1.4x to 2.0x. Dividend Income is expected to be sufficient for interest coverage.

Capitalization As at end Dec' 18, the Company is a zero-leveraged Company. It has 100% equity and no borrowings. However, in addition to running finance facility, the Company plans to borrow PKR 300mln from the parent Company (JSCL) at markup rate of 3MK + 3% p.a. for long term. The Company is expected not to raise any further debt leading to excessive leveraging.

**ENERGY INFRASTRUCTURE HOLDING (PRIVATE) LIMITED**

BALANCE SHEET	31-Dec-18	31-Dec-17	31-Dec-16
	Annual	Annual	Annual
Investments	2,653	2,081	1,219
Strategic Equity Investments	1,930	1,641	345
Subsidiaries	855	0	-
Others	1,075	1,641	345
Other Equity Investments	723	440	869
Debt Investments	-	-	5
Advance for Investments	873	335	-
Cash and Bank Balances	68	892	273
Other Assets	266	220	5
Total Assets	3,859	3,528	1,496
Borrowings	-	-	-
Long Term	-	-	-
Short Term	-	-	-
Total Liabilities (Excluding Borrowings)	43	900	352
Shareholder's Equity	3,816	2,628	1,144
Total Liabilities & Equity	3,859	3,528	1,496
INCOME STATEMENT			
Income	160	260	408
Expenditure	10	11	18
Financial Charges	0	0	0
Taxation	30	31	14
Net Income	120	217	376
Ratio Analysis			
Performance			
ROE	3.7%	14.6%	73.6%
ROA	3.2%	8.7%	32.6%
Coverages			
EBIT / Financial Charges	12,280.24	19,389.02	59,099.59
Capital Structure			
Total Debt / Total Equity	0.0%	0.0%	0.0%
Total Debt / Pure Equity	0.0%	0.0%	0.0%

ENERGY INFRASTRUCTURE HOLDING (PRIVATE) LIMITED

Feb-19

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Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) 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. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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