The Pakistan Credit Rating Agency Limited

# Rating Report

## PAIR Investment Company Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 23-Jun-2023 | AA | A1+ | Stable | Maintain | - |
| 25-Jun-2022 | AA | A1+ | Stable | Maintain | - |
| 25-Jun-2021 | AA | A1+ | Stable | Maintain | - |
| 25-Jun-2020 | AA | A1+ | Stable | Maintain | - |
| 14-Dec-2019 | AA | A1+ | Stable | Maintain | - |
| 14-Jun-2019 | AA | A1+ | Stable | Maintain | - |
| 26-Dec-2018 | AA | A1+ | Stable | Maintain | - |
| 13-Jun-2018 | AA | A1+ | Stable | Maintain | - |
| 18-Dec-2017 | AA | A1+ | Stable | Maintain | - |

### Rating Rationale and Key Rating Drivers

PAIR has been growing at a steady pace over the years and has sustained its position in the market by keeping a growth stance with an element of prudence. During CY22, advances witnessed an increase whereas investment books recorded a greater rise primarily vested in government securities. The net markup income of the company increased to stand at PKR 1,111.8mln (CY21: PKR 736.6mln), where the mix is sizably tilted towards markup earned from investments. However, non-mark-up income declined to PKR 110mln (CY21: PKR 174mln). Asset quality remained intact as infection remained harnessed in recent years. During 1QFY23, the company has recuperated where advances witnessed an increase of 13%. Net profitability witnessed a sizable increase YoY to stand at PKR 158mln (CY21: PKR 110mln). The high-interest rate environment is likely to help boost markup-based earnings. The company has taken sizable exposure into government securities, wherein market risk dominates. The capital and treasury division's primary focus of investment during the year was Government securities specifically PIBs; the remaining portion was vested in Equities, commercial papers, TFCs, and sukuks. Borrowing from financial institutions remains the primary source whereas COIs remain a minuscule part of the funding base. Liquidity position and capitalization indicators remained stable. Going forward, PAIR is focusing on building new relationships as well as strengthening existing relationships. Management is cognizant of the fact that they need to find a new niche for growth and development. PAIR is focusing on strengthening its credit portfolio by tapping new customer segments. JVFIs are largely engaged in providing credit lines on turf common to commercial banks. Limited growth in advances, over the last many years, is evidence of the conservative risk appetite of these institutions. Key reliance on treasury function funded through borrowings from the money market. The ratings of JVFIs are mainly characterized by sovereign ownership and relatively conservative risk appetite.

The ratings are dependent on the company's ability to sustain its financial profile while managing the concentration level in funding and advances. Consistent efforts by the management to add new sectors/names to further diversify their portfolio, manage provisioning expense and effect on profitability, and strengthen of equity base remain critical for the ratings.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | PAIR Investment Company Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Financial Institution Rating(Jun-22),Methodology \| Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology \| Rating Modifiers(Jun-22) |
| **Related Research** | Sector Study \| DFIs(Jun-22) |
| **Rating Analysts** | Sehar Fatima \| sehar.fatima@pacra.com \| +92-42-35869504 |

## Profile

**Structure** PAIR Investment Company Limited (PAIR) was incorporated in January 2007 and commenced operations as a Development Finance Institution (DFI) on May 29, 2007.

**Background** PAIR Investment Company Limited (PICL) is a Joint Venture Investment Company that has been formed as a result of an agreement between the Governments of Pakistan and Iran. It is classified as a "Development Finance Institution" (DFI) under the regulatory control of the State Bank of Pakistan.

**Operations** PAIR's objectives include financing for industrial and commercial projects and SMEs, capital and money market operations, and other investment banking activities. The Company operates through its head office in Karachi and has a branch office in Lahore.

## Ownership

**Ownership Structure** PAIR Investment Company Limited (PAIR) is an equally owned joint venture between Pakistan and Iran. The Ministry of Finance (MoF) manages the ownership interests of the Government of Pakistan, while the Iran Foreign Investment Company (IFIC) represents the Government of Iran.

**Stability** The ownership structure is the same since inception and is likely to remain the same in the foreseeable future.

**Business Acumen** The business acumen of the Ministry of Finance (MoF) and Iran Foreign Investment Company (IFIC) is considered good.

**Financial Strength** The financial muscle of sponsors is considered strong.

## Governance

**Board Structure** Currently, PAIR's board composition consists of an equal number of directors from both countries, three directors representing Iran and three directors representing Pakistan, whereas, one directorship representing Pakistan lies vacant. All the members of the board are non-executive except the MD/CEO of the company.

**Members' Profile** All the board members carry vast experience from diversified sectors. Mr. Zahoor Ahmed, nominated by MOF, is the acting Chairman of the board since May'19. Members representing MOF have a long association with different organizations in government roles.

**Board Effectiveness** The board has formulated four board committees for effective monitoring namely 1) Board Audit Committee, 2) Board Risk Management Committee, 3) Board Human Resource Committee, and 4) Board Strategic Investment Committee.

**Financial Transparency** During CY22, the board audit committee met four times. M/s Yousuf Adil Chartered Accountants, are the company's external auditors. They have expressed an unqualified opinion in their audit report for the year ended December 31, 2022. Previously, M/s KPMG Taseer Hadi & Co., Chartered Accountants, were the company's external auditors.

## Management

**Organizational Structure** The functional areas are divided into: Human Resources, Administration Department, Information Technology, Treasury Department and Capital Market Department, Credit and Risk Management, Compliance, Corporate and Investment Banking Group (CIBG), Finance and Accounts, and Internal Audit.

**Management Team** PAIR's management team comprises well-qualified and experienced individuals, who have an association with the company for a long. Mr. Abbas Daneshvar is the company's MD/CEO.

**Effectiveness** To ensure the effectiveness of the decision-making process, the management has set up nine committees: Asset and Liability Committee (ALCO), Risk Management Committee, Admin Committee, Compliance Management Committee, IT Steering Committee, HR Committee, Central Credit Committee, and Internal Control Monitoring Committee.

**MIS** The head of departments monitors the performance through system-generated reports. These reports can be generated daily, weekly, monthly, or quarterly basis to evaluate the performance of the respective departments.

**Risk Management Framework** PAIR has implemented a risk management framework outlining the various roles and responsibilities of each risk unit. Credit, market, liquidity, and operational risk policies have been implemented, in line with the requirements of SBP, to measure, monitor and mitigate all risk factors. PAIR's Risk Management Department has four main functions, namely: Credit Risk, Market Risk, Liquidity Risk, and Operational Risk.

## Business Risk

**Industry Dynamics** During CY22, JVFI's advances recorded growth (end-Dec22: PKR 188bln, end-Dec21: PKR 140bln) attributable to enhanced exposure in system share by Pak Oman and Pak Brunei. The highest system share, in terms of advances, shifted to Pak Oman. Investment books are majorly vested in government papers given investment security, which has surged to PKR 1,168bln (end-Dec21: PKR 338bln). Hence, the industry's major reliance is on non-core operations for the generation of income. The industry's deposit base recorded marginal growth (end-Dec22: PKR 38.1bln, CY21: PKR 34bln). The equity base of the industry witnessed an improvement (end-Dec22: PKR 145bln, end-Dec21: PKR 136bln). Going forward, to compete with other financial institutions (commercial banks primarily), the industry players need to identify niches along with building relatively unique products and services. Otherwise, JVFIs may get marginalized.

**Relative Position** The Company's market share in terms of advances inched up to 8%. The investment book witnessed 24% growth whereas, gross advances depicted a growth of 36%.

**Revenues** During CY22, markup earned on advances and investments increased to stand at PKR 3.2bln (CY21: PKR 1.56bln). Subsequently, net markup income increased to PKR 1.1bln (CY21: PKR 737mln). The provisioning expenses declined to PKR 97mln (CY21: PKR 265mln). Hence, net profitability increased to stand at PKR 446mln (CY21: PKR 194mln). During 1QCY23, net markup income increased to stand at PKR 334mln (1QCY22: PKR 222mln).

**Performance** During CY22, total income increased by 34% YoY to stand at PKR 1.2bln (CY21: PKR 911mln). However, analysis of non-markup income reveals that non-markup income decreased to PKR 110mln (CY21: PKR 174mln) mainly due to the loss booked on securities of PKR 73mln (CY21: Profit of PKR 52mln). Subsequently, non-mark-up expenses to total income increased to 38.5% (CY21: 43%). Non-markup expenses increased to PKR 470mln (CY21: PKR 392mln). During 1QCY23, the non-mark-up income clocked in at PKR 40mln (1QCY22: PKR 52mln).

**Sustainability** Going forward, PAIR will be following a cautious lending approach while relying on investment income. The project of liaison cum branch office in Tehran to facilitate cross-border investments has been put on hold till the conditions improve and the mechanism for remittance between the two countries is functional.

## Financial Risk

**Credit Risk** At end-Dec22, PAIR's gross advances constitute 28% of the total assets (end-Dec21: 29%). The net advances grew by 45% to stand at PKR 9.4bln (end-Dec21: PKR 6.5bln). PAIR's infection ratio decreased to 18.1% (end-Dec21: 24.8%) driven by an increase in advances. At end-Mar23, the gross advances increased to stand at PKR 11.3bln. Whereas, the infection ratio inched down to 15.9%.

**Market Risk** At end-Dec22, the investment book inclined to PKR 21bln (end-Dec21: PKR 16.9bln). Investment in government securities comprises 92.7% (end-Dec21: 89.8%) of the entire investment book. Further segregation reveals that PIBs are 58% (At end-Dec21: 63%) and T-Bills are 7% (At end-Dec21: 23%) of the government securities. At end-Mar23, Investment in government securities comprises 92.7% of the entire investment book. Further segregation reveals that PIBs are 58% and T-Bills are 5% of the government securities.

**Liquidity And Funding** At end-Dec22, PAIR's funding profile remained tilted towards borrowings clocking in at PKR 20.3bln (end-Dec21: PKR 13.6bln). The deposit base witnessed growth and stood at PKR 1,172mln (end-Dec21: PKR 1,132mln). At end-Mar23, the deposit base increased to PKR 2,046mln, while borrowings were recorded at 21,035mln.

**Capitalization** PAIR maintains strong equity base largely sustained at PKR 9.7bln as of end-Dec22 (end-Dec21: PKR 9.6bln). The capital base of the company, mainly comprising Tier-I capital stands provides comfort to absorb the impact of any adverse macroeconomic performance-related shocks. Given the company's conservative risk appetite and a large portion of unutilized capital, the company's capital adequacy remained well above regulatory requirements (end-Mar23: 26.5%; end-Dec22: 33.5%; end-Dec21: 49.5%).

PKR mln

| PAIR Investment Company<br>Listed Public Limited | Mar-23<br>3M | Dec-22<br>12M | Dec-21<br>12M | Dec-20<br>12M |
|---|---|---|---|---|
| **A BALANCE SHEET** | | | | |
| 1 Total Finances - net | 16,861 | 15,546 | 12,142 | 10,513 |
| 2 Investments | 14,307 | 14,813 | 11,095 | 8,761 |
| 3 Other Earning Assets | 76 | 21 | 151 | 68 |
| 4 Non-Earning Assets | 2,514 | 2,189 | 1,371 | 1,405 |
| 5 Non-Performing Finances-net | (49) | 173 | 255 | 542 |
| **Total Assets** | 33,709 | 32,742 | 25,014 | 21,290 |
| 6 Deposits | 2,046 | 1,772 | 1,132 | 924 |
| 7 Borrowings | 21,035 | 20,336 | 13,658 | 10,223 |
| 8 Other Liabilities (Non-Interest Bearing) | 1,395 | 860 | 568 | 481 |
| **Total Liabilities** | 24,476 | 22,968 | 15,359 | 11,628 |
| **Equity** | 9,233 | 9,773 | 9,655 | 9,662 |
| **B INCOME STATEMENT** | | | | |
| 1 Mark Up Earned | 1,153 | 3,244 | 1,562 | 1,960 |
| 2 Mark Up Expensed | (819) | (2,132) | (826) | (957) |
| 3 Non Mark Up Income | 40 | 110 | 174 | 71 |
| **Total Income** | 374 | 1,221 | 910 | 1,074 |
| 4 Non-Mark Up Expenses | (120) | (470) | (392) | (377) |
| 5 Provisions/Write offs/Reversals | (32) | (97) | (265) | (191) |
| **Pre-Tax Profit** | 221 | 654 | 254 | 506 |
| 6 Taxes | (63) | (208) | (60) | (119) |
| **Profit After Tax** | 158 | 446 | 193 | 387 |
| **C RATIO ANALYSIS** | | | | |
| **1 Cost Structure** | | | | |
| Net Mark Up Income / Avg. Assets | 4.0% | 3.9% | 3.2% | 4.7% |
| Non-Mark Up Expenses / Total Income | 32.2% | 38.5% | 43.0% | 35.1% |
| ROE | 6.6% | 4.6% | 2.0% | 4.0% |
| **2 Capital Adequacy** | | | | |
| Equity / Total Assets (D+E+F) | 27.4% | 29.8% | 38.6% | 45.4% |
| Capital Adequacy Ratio | 26.5% | 33.5% | 49.5% | 55.8% |
| **3 Funding & Liquidity** | | | | |
| Liquid Assets / (Deposits + Borrowings Net of Repo) | 38.0% | 50.9% | 55.6% | 66.2% |
| (Advances + Net Non-Performing Advances) / Deposits | 523.7% | 532.9% | 575.6% | 667.4% |
| **4 Credit Risk** | | | | |
| Non-Performing Advances / Gross Advances | 15.9% | 18.1% | 24.8% | 27.0% |
| Non-Performing Finances-net / Equity | -0.5% | 1.8% | 2.6% | 5.6% |

# Corporate Rating Criteria

## Scale

### Credit Rating

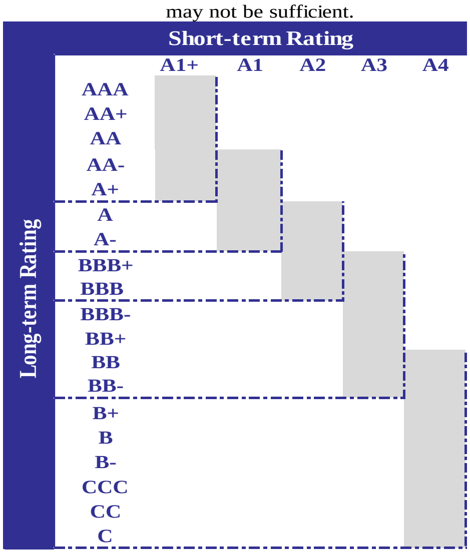
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

**Long-term Rating**

| Scale | Definition |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+<br>AA<br>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. |
| A+<br>A<br>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. |
| BBB+<br>BBB<br>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. |
| BB+<br>BB<br>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+<br>B<br>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. |
| CCC<br>CC<br>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. |

**Short-term Rating**

| Scale | Definition |
|---|---|
| A1+ | The highest capacity for timely repayment. |
| A1 | A strong capacity for timely repayment. |
| A2 | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. |
| A3 | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial |
| A4 | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |




**The correlation shown is indicative and, in certain cases, may not hold.*

**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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

# Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

**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 | Clause 11-(A)(p).
(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)
**Proprietary Information**