



The Pakistan Credit Rating Agency Limited

## Rating Report

### Pakistan Kuwait Investment Company (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Dec-2019	AAA	A1+	Stable	Maintain	-
21-Jun-2019	AAA	A1+	Stable	Maintain	-
28-Dec-2018	AAA	A1+	Stable	Maintain	-
13-Jun-2018	AAA	A1+	Stable	Maintain	-
14-Dec-2017	AAA	A1+	Stable	Maintain	-
14-Jun-2017	AAA	A1+	Stable	Maintain	-
06-May-2016	AAA	A1+	Stable	Maintain	-
06-May-2015	AAA	A1+	Stable	Maintain	-
23-Jun-2014	AAA	A1+	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

Development Financial institutions (DFIs) largely operate on turf common to commercial banks. Limited depth in participation towards development of long gestation projects, low funding base and high competition become their key challenges. Joint Venture Financial Institutions are DFIs jointly conceived by the two sovereigns with primary objective of identifying and nurturing multiple development initiatives. Their ratings are mainly characterized by sovereign ownership, adequate standards of governance and relatively conservative risk appetite.

The ratings benefit from the company's strong financial profile emanating from sound risk absorption capacity and liquidity. Over the last one decade, JVFI's at large have been relying more on the non-core income attributable to limited outreach in the market. PKIC sustained its lending book owing to prudent lending and risk management approach. The management is cognizant of the opportunities and is contemplating an appropriate strategy. Nonetheless, the build-up of strategic equity investments in different companies provides a strong and stable income stream in the shape of dividends; hence, comforting the net profits. PKIC has the smallest advances book among the peers. The investment book is usually of significant size. It was second highest in Sep-19. Treasury policy allows weighted average duration of investment portfolio up to three years which is considered higher whilst dictates effective monitoring of yield curve for future strategy. The company has focused on treasury operations where it is enhancing its participation in money market. The liquidity profile of the institution remains comfortable with access to financial institutions to support its treasury and lending operations. Strong equity base and minimal drag of NPLs on equity is a positive. Going forward, the management, while continuing to prudently increase its advances book, would also focus on non-fund based revenue stream.

The ratings are dependent on the management's ability to sustain its financial profile while managing the associated risks. Management's efforts to diversify its operations, finding a new niche for growth, while sustaining its profitability would remain critical.

#### Disclosure

<b>Name of Rated Entity</b>	Pakistan Kuwait Investment Company (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	PACRA_Methodology_FI_FY19(Jun-19),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria   Rating Modifier(Jun-19)
<b>Related Research</b>	Sector Study   DFIs(Jun-19)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504

**Profile**

**Structure** Pakistan Kuwait Investment Company (Private) Limited was established in March 1979 as a joint venture between the Governments of Pakistan (GoP) and Kuwait. It is equally owned by GoP through the State Bank of Pakistan (SBP) and Government of Kuwait through Kuwait Investment Authority (KIA), representing their respective governments.

**Background** The Kuwait Investment Authority (KIA), an investment arm of the Government of Kuwait working under the Ministry of Finance, was established in 1982 as an independent legal entity.

**Operations** The objective of the Company is to profitably promote industrial investment in Pakistan. Despite being one of the oldest Joint Venture Financial Institutions (JVFI), Pak Kuwait has been following a strategy of limited credit expansion and skewed its operations with an increased focus towards money markets and equity investments.

**Ownership**

**Ownership Structure** It is equally owned by GoP through the State Bank of Pakistan (SBP) and Government of Kuwait through Kuwait Investment Authority (KIA), representing their respective governments.

**Stability** The ownership structure remained same since inception of the Company. It is likely to remain same in foreseeable future.

**Business Acumen** The business acumen of sponsors is considered strong.

**Financial Strength** The financial muscle of both sponsors is very strong.

**Governance**

**Board Structure** The overall control of the Company vests with six member board (BoD), having an equal representation from both governments. Board's Chairman is a representative of KIA.

**Members' Profile** The BoD members have extensive experience in the field of finance and investment management. This helps in providing useful insight in managing investments and guiding management in developing effective risk management policies and procedures.

**Board Effectiveness** The Board has formulated three committees, namely Audit Committee, Executive Committee and Risk Management Committee, to ensure smooth and effective monitoring of operations.

**Financial Transparency** Board has set-up a three-member Internal Audit Committee, that reports to the Board. M/s KPMG Taseer Hadi & Co., Chartered Accountants, were external auditors of the Company, expressed an unqualified opinion in their audit report for the year ended December 31, 2018. An interim review was conducted for the six months period ending June 30th, 2019.

**Management**

**Organizational Structure** Pak Kuwait has an aligned organizational structure for operational efficiency. Company's main functions are classified as: Risk Management, Compliance, Investment Banking and Corporate Finance, Capital Market and Treasury, Finance, Internal Audit and Human Resource and General Support Services.

**Management Team** The Company's management team comprises well qualified and experienced individuals, having long association with the company. Mr. Mubashar Maqbool, Pak Kuwait's MD, has diversified experience in Development, Commercial and Investment Banking and is associated with the company since March 2019.

**Effectiveness** Pak Kuwait's complete operational set-up falls under the purview of the Managing Director. All department heads directly report to him, except for the Head of Internal Audit; reports to the Board Audit Committee and Head of Risk Management, reports to the Risk Management Committee of the board.

**MIS** The department heads monitor the performance of their departments on daily basis through different MIS reports being generated through system. They report the performance of their respective departments to the CEO on periodic basis.

**Risk Management Framework** Pak-Kuwait has developed and implemented various models and manuals to minimize the company wide risks. Risk Management Department comprehensively covers: development of measurement tools/models (e.g. Obligor Risk Rating (ORR), Facility Risk Rating (FRR), CAMEL rating model, and stress testing), establishment of credit and market risk limits, and formulation of policies and procedural manuals related to the overall risk management.

**Business Risk**

**Industry Dynamics** JVFI's witnessed, in 9MCY19, decline in advances attributable to limited market outreach as well as slowdown in economy. Investment book majorly vested in government papers given investment's security has witnessed significant growth. Hence, reliance is on non-core operations for generation of income. Industry's deposit base slimmed down and major reliance for funding remained on borrowing from money market. Going forward, to compete with other financial institutions (commercial banks primarily), the industry players need to build relatively unique products and services. Otherwise, JVFI's may get marginalized.

**Relative Position** During 9MCY19, the Company's market share in terms of advances stood at 4% (CY18: 4%).

**Revenues** Interest earned witnessed an increase to PKR 947mln (9MCY18: PKR 696mln), up by 36% YoY. Net interest margin improved to PKR 912mln (9MCY18: PKR 638mln), up 43% YoY driven by significant decline in interest expense owing to borrowings locked at lower rate for major tenure of CY19.

**Performance** Other operating income is increased in 9MCY19 by 29% (9MCY18: PKR 3,412mln; 9MCY18: PKR 2,645mln), primarily due to stable share in profit from associates. The cost to net revenue clocked in at 10% (9MCY18: 15%) as revenue base enhanced by 32%. The provisioning expense increased to PKR 436mln (9MCY18: 0.7mln reversal) attributable to diminution in value of investments. Hence, net profit stood at PKR 2,784mln (9MCY18: PKR 2,270mln), up 23% YoY.

**Sustainability** Going forward, the Company has planned higher disbursements to economically viable and technically feasible projects. PKIC intends to increase market penetration and expand footprints across the country especially in the Northern region. New initiatives would be taken to participate in project finance and infrastructure projects.

**Financial Risk**

**Credit Risk** During 9MCY19, company's loan book declined by 10% (CY18: decline 15%), total assets increased by 42% (9MCY19: PKR 42,710mln; CY18: PKR 29,977mln) on account of rise in investment book. While advances portfolio was passively managed (8% decline in gross advances). Infection ratio inched up (9MCY19: 31%; CY18: 29%) primarily driven by decline in advances.

**Market Risk** During 9MCY19, Company's investment in Government securities increased by 183% (9MCY19: PKR 15,314mln; CY18: PKR 5,399mln), which comprises 43% of the total investments. Out of total investment book, contribution by government securities increased to 43% (CY18: 23%) while equity investments declined to 8% (CY18: 13%) while investments in associates increased to PKR 17.5bln (CY18: PKR 15.2bln). Treasury policy narrates that weighted average effective duration of total portfolio shall not exceed 3 years. Company's ALCO will be called if there is 1% or more shift in the yield curve in a week's time. Weighted average duration allowed is considered higher.

**Liquidity And Funding** The liquid assets on 9MCY19 are PKR 19,239mln (CY18: PKR 9,276mln) continue to provide adequate cushion to the borrowings and deposits. However, attributable to sizable increase in borrowings liquidity to deposits and borrowings witnessed decline (9MCY19: 170%, CY18: 660%). During 9MCY19, borrowings increased to PKR 11,346mln (CY18: PKR 1,371mln) channeled towards government securities.

**Capitalization** A strong equity base (9MCY19: PKR 29bln; CY18: PKR 27bln), mainly comprising Tier-I capital provides comfort to absorb the impact of any adverse macroeconomic performance related shocks. Pak Kuwait's capital adequacy 43.7% remained above regulatory requirement.



**Pak Kuwait Investment Company (Private) Limited**

**Financial Summary**

	<i>PKR mln</i>			
<b>BALANCE SHEET</b>	<b>30-Sep-19</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	<b>9M</b>	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>
<b>Assets</b>				
<b>Earning Assets</b>				
Advances	2,388	2,656	3,122	4,270
Debt Instruments	1,701	2,008	1,114	1,380
<b>- Total Finances</b>	<b>4,089</b>	<b>4,664</b>	<b>4,236</b>	<b>5,650</b>
Govt Securities	15,314	5,399	4,500	3,089
Equity Investments	2,879	3,211	3,648	3,930
Investments in Associates & Subsidiaries	17,503	15,197	13,660	12,807
<b>- Total Investments</b>	<b>35,697</b>	<b>23,807</b>	<b>21,808</b>	<b>19,826</b>
Others	2,352	1,081	2,496	2,650
<b>Non Earning Assets</b>				
Non Earning Cash	54	61	61	62
Deferred Tax	-	-	-	-
Net Non Performing Finances	41	42	44	152
Fixed Assets & Others	476	322	484	601
<b>Total Assets</b>	<b>42,710</b>	<b>29,977</b>	<b>29,129</b>	<b>28,941</b>
<b>Liabilities</b>				
Certificates of Investment	-	35	3	4
Borrowings	11,346	1,371	2,562	2,662
<b>Interest Bearing Liabilities</b>	<b>11,346</b>	<b>1,406</b>	<b>2,565</b>	<b>2,665</b>
<b>Non Interest Bearing Liabilities</b>	<b>2,383</b>	<b>2,022</b>	<b>1,757</b>	<b>1,588</b>
<b>Equity</b>				
Total Equity	28,720	26,382	24,128	22,822
Revaluation Surplus	261	167	679	1,865
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>42,710</b>	<b>29,977</b>	<b>29,129</b>	<b>28,941</b>
<b>INCOME STATEMENT</b>				
Interest/ markup earned	947	928	741	1,028
Interest/ markup expensed	(36)	(66)	(104)	(244)
<b>Net Interest/ markup revenue</b>	<b>912</b>	<b>862</b>	<b>637</b>	<b>784</b>
Other Income	3,412	3,534	2,403	3,787
Total revenue	<b>4,324</b>	<b>4,396</b>	<b>3,040</b>	<b>4,571</b>
Non Interest/ Non Markup expensed	(431)	(582)	(510)	(485)
Pre-provision Profit	3,893	3,814	2,530	4,086
(Provision)/ Reversal	(436)	(299)	64	43
Taxes	(672)	(747)	(743)	(676)
<b>Net Income</b>	<b>2,784</b>	<b>2,768</b>	<b>1,850</b>	<b>3,453</b>
<b>Ratio Analysis</b>				
<b>Performance</b>				
ROE	13.5%	11.0%	7.9%	16.2%
Cost-to-Total Net Revenue	10.0%	13.2%	16.8%	10.6%
Capital Gains/ Total Revenue	-0.7%	4.3%	3.0%	7.0%
<b>Capital Adequacy</b>				
Equity / Total Assets	67.2%	88.0%	82.8%	78.9%
Capital Adequacy ratio as per SBP	43.7%	42.6%	41.3%	39.8%
<b>Funding &amp; Liquidity</b>				
Liquid Assets/ Deposits & Borrowings	169.6%	659.9%	335.1%	275.3%
Finances/ Deposits & Borrowings	45.7%	410.8%	211.9%	271.9%
<b>Loan Loss Coverage</b>				
Loan Loss Provisions/ Impaired Lending	96.2%	96.2%	96.3%	90.4%
Net Impaired Lending/Total Equity	0.1%	0.2%	0.2%	0.7%

## 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	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.

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(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

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- (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)
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- (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.
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- (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)

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- (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)

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- (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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