The Pakistan Credit Rating Agency Limited

Rating Report

Pakistan Kuwait Investment Company (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Jun-2021	AAA	A1+	Stable	Maintain	-
29-Jun-2020	AAA	A1+	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

JVFIs are largely engaged in providing credit lines on turf common to commercial banks. However, limited growth in advances, over last many years, is evident of conservative risk appetite of these institutions. Key reliance on treasury function funded through borrowings from money market. 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, JVFIs at large have been relying more on the non-core income attributable to limited outreach in the market. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the JVFIs industry remained protected and posted record profits. Vigilance is required as the loan repayment cycle remains amid variants of the pandemic continue to re-emerge.
PKIC's deposit base enhanced to PKR 2.8bln as at end-Dec20. Also, advances recorded sizable growth where infection was contained at historical figure. Net markup income of the Company increased by 55% YoY to PKR 2bln on the back of higher investments in government securities and increase in lending portfolio which includes advances financed by low cost funding. The build-up of strategic equity investments in different companies provides a strong and stable income stream in the shape of dividends. Net profits are the main function of dividend income. Total Assets of the Company increased to PKR 107bln as of December 31, 2020 compared to PKR 66bln at the end of last year. Treasury policy allows weighted average duration of investment portfolio up to three years 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.

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

Name of Rated Entity	Pakistan Kuwait Investment Company (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | FI (Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | DFIs(Jun-20)
Rating Analysts	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. PKIC has been following a growth-based strategy in recent years with respect to advances and investment. Consequently, it has developed a good and diversified portfolio of advances, strategic 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 EY Ford Rhodes, Chartered Accountants, was the company's external auditors. They have given an unqualified opinion on the financials for the year ended December 31, 2020.

Management

Organizational Structure Pak Kuwait has an aligned organizational structure for operational efficiency. Company's main functions are classified as Risk Management, Compliance, Corporate Finance and Investment Banking, 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 Chief Risk Officer, 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 the system. They report the performance of their respective departments to the CEO on a periodic basis.

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

Business Risk

Industry Dynamics During CY20, JVFI's advances recorded sizable growth (CY20: 17%, CY19: 9%) attributable to enhanced investment in growing sectors by Pak Kuwait. However, highest system share in terms of advances retained by Pak Oman. Investment book majorly vested in government papers given investment's security has witnessed growth. Hence, industry's major reliance is on non-core operations for generation of income. After few years, the industry's deposit base recorded sizable growth (CY20: PKR 27bln, CY19: PKR 12bln) attributable to growth witnessed in deposit base of Pak Oman, Pak Libya, Pak Kuwait and Saudi Pak. Equity base of the industry increased by 7%. Going forward, to compete with other financial institutions (commercial banks primarily), the industry players need to identify niche along with building relatively unique products and services. Otherwise, JVFIs may get marginalized.

Relative Position During CY20, the market share in terms of advances recorded a sizable increase to stand at 17% (CY19: 9%). Moreover, investment book also witnessed a sizable increase. On Deposit side, PKIC has performed well and has mobilized deposits of Rs 2.8bln in CY20.

Revenues During CY20, markup earned witnessed an uptick to stand at PKR 6.7bln (CY19: PKR 2.1bln). Attributable to a significant increase in mark-up on investments to PKR 5.8bln (CY19: PKR 1.9bln) and markup on advances to PKR 854mln (CY19: PKR 183mln). During 1QCY21, markup earned stood at PKR 1.5bln. Markup expense significantly increased due to higher borrowings in CY20 and clocked at PKR 4.6bln (CY19: PKR 768mln). Hence, the net markup income of PKIC witnessed a sizable increase to stand at PKR 2.1bln in CY20 and 1QCY21 PKR 507mln (CY19: PKR 1.35bln).

Performance Non - Markup income continued to supplement the profitability YoY due to the stable share of PKR 7.1bln (CY19: PKR 4.9bln) in profit from associates. Net markup income to total income increased to 21% (CY19: 19%) primarily due to increase of 40% in non-markup income. The provisioning expenses witnessed an increase at PKR 1,034mln (CY19: 450mln). Hence, net profit of the Company stood at PKR 6.3bln (CY19: PKR 4.7bln), up 34% YoY. In 1QCY21, net profit stood at PKR 1.9bln.

Sustainability Going forwards, PKIC will strive to invest in economically viable and strategically important sectors of the economy including project finance and infrastructure development sectors. Moreover, PKIC will also strive to invest in high-yielding securities to provide the best return to its stakeholder.

Financial Risk

Credit Risk During 1QCY21 and CY20, the Company's loan book surged to PKR 14.1bln and PKR 14.5bln (CY19: PKR 6.6bln) respectively. Total assets swelled to stand at PKR 106.8bln (CY19: PKR 65.7bln) attributable to a sizable increase in investments, while advances contribute 14% (CY19: 10%) to the total asset base. During CY20, NPLs to gross advances witnessed a decline to 6.8% (CY19: 14.2%) while in 1QCY21, slightly up and clocked at 7.0% attributable to an increase in advances. Credit risk over advances witnessed a decrease to 270.8% at end-Dec20 (end-Dec19: 448.1%).

Market Risk In CY20, Pak Kuwait's investment book substantially increased to PKR 84.9bln (CY19: PKR 52.5bln). Analysis of investment book reveals that contribution by government securities significantly increased and stood at PKR 57.8bln during CY20 (CY19: PKR 28.5bln) which is 68% of the total investment book. While 29% of investments are in associates or subsidiaries clocked at PKR 24.3bln in CY20 (CY19: PKR21.1bln). Furthermore, the remaining 3% of the investment is in equity instruments. As of 1QCY21, investments stood at PKR 85.7bln.

Liquidity And Funding The liquid assets in CY20 stood at PKR 60.7bln (1QCY21: PKR 60.5bln, CY19: PKR 31.4bln) continue to provide a robust cushion to the borrowings and deposits of Pak Kuwait. During CY20, borrowings increased to PKR 62bln (1QCY21: PKR 68bln, CY19: PKR 29bln). This was mainly done to fund investment in government securities. In CY20, PKIC initially recorded deposits at PKR 2.8bln, and in 1QCY21, the Company's deposit stood at PKR 2.2bln.

Capitalization A strong equity base (CY20: PKR 37.7bln; 1QCY21: PKR 38.5bln; CY19: PKR 33.5bln), mainly comprising Tier-I capital provides comfort to absorb the impact of any adverse macroeconomic performance-related shocks. Pak Kuwait's capital adequacy stood at 34% (1QCY21: 30%, CY19: 37%), remaining well above the regulatory requirements.

PKR mln

Pakistan Kuwait Investment	Mar-21	Dec-20	Dec-19	Dec-18
Un-Listed Public Limited	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	20,744	20,104	10,489	4,665
2 Investments	85,749	84,871	52,465	23,807
3 Other Earning Assets	5,734	14	1,242	1,081
4 Non-Earning Assets	1,728	2,096	1,543	383
5 Non-Performing Finances-net	(259)	(259)	41	42
Total Assets	113,696	106,826	65,781	29,977
6 Deposits	2,220	2,820	-	35
7 Borrowings	67,809	62,153	28,953	1,371
8 Other Liabilities (Non-Interest Bearing)	5,153	4,135	3,293	2,021
Total Liabilities	75,182	69,108	32,246	3,428
Equity	38,514	37,717	33,535	26,549
B INCOME STATEMENT				
1 Mark Up Earned	1,514	6,665	2,119	928
2 Mark Up Expensed	(1,007)	(4,574)	(768)	(66)
3 Non Mark Up Income	2,066	7,885	5,645	3,534
Total Income	2,573	9,975	6,995	4,396
4 Non-Mark Up Expenses	(289)	(1,123)	(777)	(582)
5 Provisions/Write offs/Reversals	-	(1,034)	(450)	(299)
Pre-Tax Profit	2,284	7,818	5,768	3,515
6 Taxes	(404)	(1,474)	(1,025)	(747)
Profit After Tax	1,880	6,344	4,743	2,768
C RATIO ANALYSIS				
1 Cost Structure				
Net Mark Up Income / Avg. Assets	1.8%	2.4%	2.8%	2.9%
Non-Mark Up Expenses / Total Income	11.2%	11.3%	11.1%	13.2%
ROE	19.7%	17.8%	15.8%	10.8%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	33.9%	35.3%	51.0%	88.6%
Capital Adequacy Ratio	29.9%	34.0%	36.5%	42.6%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	82.7%	92.3%	108.6%	617.2%
(Advances + Net Non-Performing Advances) / Deposits	621.9%	505.6%	N/A	7708.2%
4 Credit Risk				
Non-Performing Advances / Gross Advances	7.0%	6.8%	14.2%	29.5%
Non-Performing Finances-net / Equity	-0.7%	-0.7%	0.1%	0.2%

Credit Rating

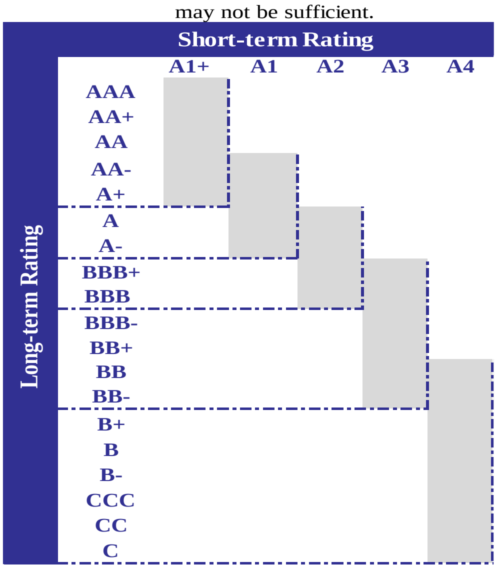
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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+ 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.
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.
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.
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+ 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.
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.

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):

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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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.

(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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