



**The Pakistan Credit Rating
Agency Limited**

*PACRA Insight is a medium to
communicate with the users of ratings*

*– harmonizing knowledge; assimilating
expertise....in essence, leading the rating
industry's development along high
standards of integrity and transparency*

Issue VII, December 2015



PACRA *INSIGHT*

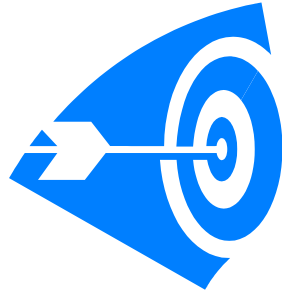
The Best Vision is INSIGHT

Malcolm Forbes

INSIDE.....

- **PACRA Rating Universe**
- **Pakistan Rating Industry**
- **Credit Risk**
- **PACRA Capacity Building Endeavors**

Humaira Jamil
Senior Manager – Criteria



PACRA Rating Universe

Composition, Size, Activity & Developments



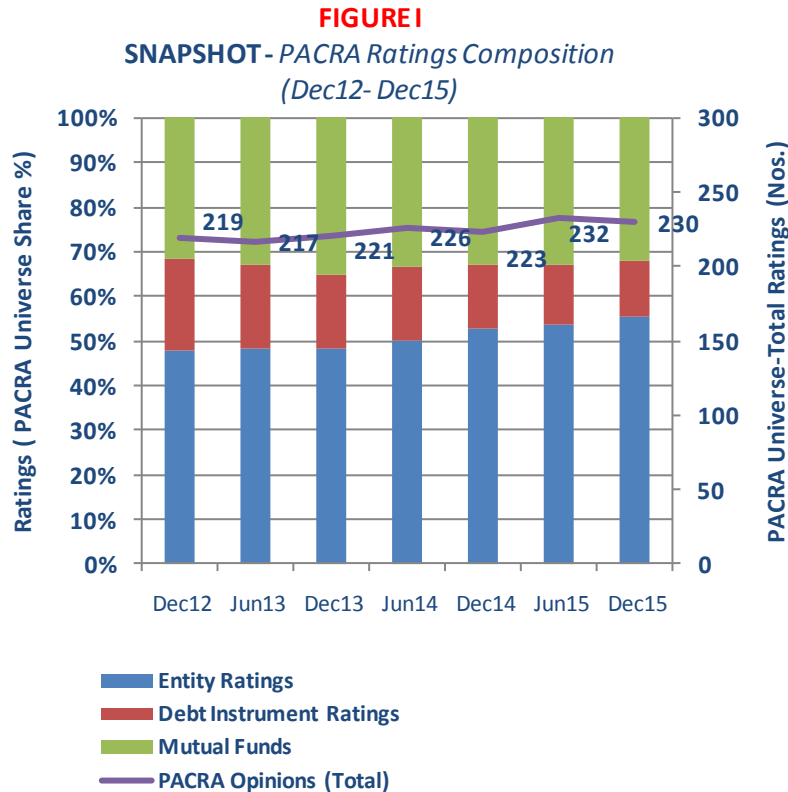
Entity Ratings

Debt
Instrument
Ratings

Mutual Funds
(including Asset
Managers)

Developments

PACRA Rating Universe – *Composition*



- **Universe composition** - Dominated by entity ratings followed by various kinds of opinions for mutual funds and debt instrument ratings

- PACRA explores new **Sectors**:



Bagasse based
Power



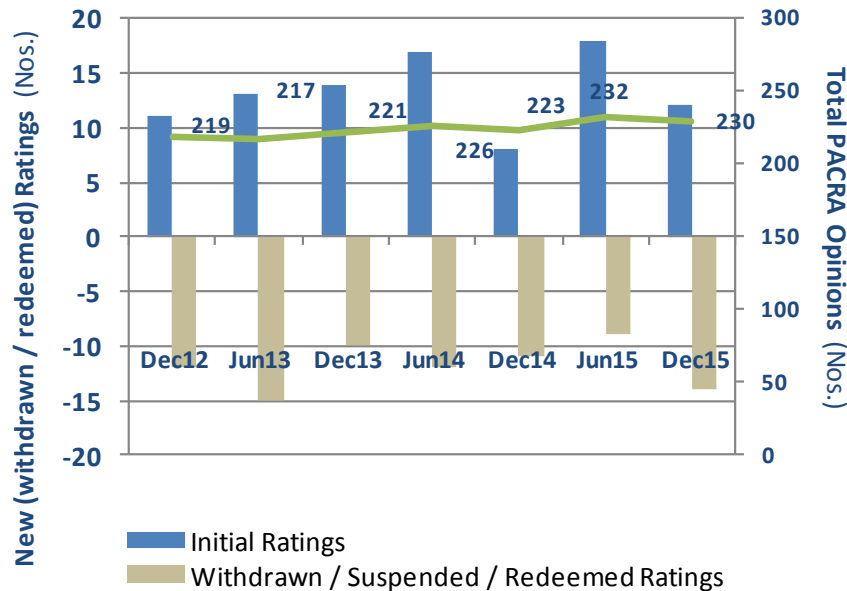
Highway Tolling

- PACRA Security Agency Grading universe expands to two (2) opinions | **Wackenhut Pakistan & Security & Management Services**

PACRA Rating Universe – *Entry / Exit*

FIGURE II

SNAPSHOT - PACRA Ratings Universe Growth
(Dec12 - Dec15)



PACRA Rating Universe – *Entry / Exit* (CY15)

Growth **3.1%**
Seven (7) additions

	Entry	Exit
	30	23
Entity	17	8
Debt Instrument	4	6
Mutual Funds	9	9

PACRA ENTITY RATING UNIVERSE (Entry / Exit) (For Calendar Year ended December 31, 2015)							
Initial Entities		Initial Long-Term Ratings		Withdrawn / Suspended (WD/Susp) Entities		Last Long-Term Ratings	
Financial Institutions							
		Rating	Date			Rating	Date (WD/Susp)
1	Asiacare Health & Life Insurance	A-	20-Jan-15	1	Askari Investment Management	AM3+	17-Apr-15
2	Sindh Insurance	A-	28-Jan-15	2	KASB Bank	B	08-May-15
3	MCB-Arif Habib Savings & Investments	AA-	12-Mar-15	3	Pak China Investment Company	AA	13-May-15
4	Pak Qatar General Takaful	A	19-Mar-15	4	Silver Star Insurance (Suspended)	A-	15-Jun-15
5	Pak Brunei Investment Company	AA+	04-Jun-15				
6	EFU General Insurance	AA+	30-Jun-15				
7	National Bank of Pakistan	AAA	30-Jun-15				
8	KASB Modaraba	BBB+	23-Sept-15				
9	Premier Insurance	A	30-sept-15				
Corporates							
10	Dawood Hercules Corporation	A+	12-Jan-15	5	Maqbool Textile Mills	BBB+	07-May-15
11	Cherat Cement	A-	24-Feb-15	6	Centerpoint Karachi	PG1	30-Jun-15
12	Security & Management Services	BBB+	29-Apr-15	7	Mangla Metals	BBB	27-Nov-15
13	Wakenhut Pakistan	BBB	29-Apr-15	8	Kohsar Hydro Power	BBB	27-Nov-15
14	Ismail Iqbal Securities	BBB-	06-Oct-15				
15	TPL Properties	A+	12-Oct-15	<div>Of the Withdrawn Entities:</div> <div>•KASB Bank has ceased to exist merger with and into BankIslami Pakistan</div> <div>•Pak China Investment Company and Askari Investment Management have switched to JCR-VIS</div> <div>•The ratings of Silver Star Insurance stand suspended</div> <div>•Maqbool Textile Mills, Mangla Metals & Kohsar Hydro Power have thus far chosen to remain unrated</div>			
16	PAKCEM	A-	19-Nov-15				
17	Security & Management Services	SG2	14-Dec-15				

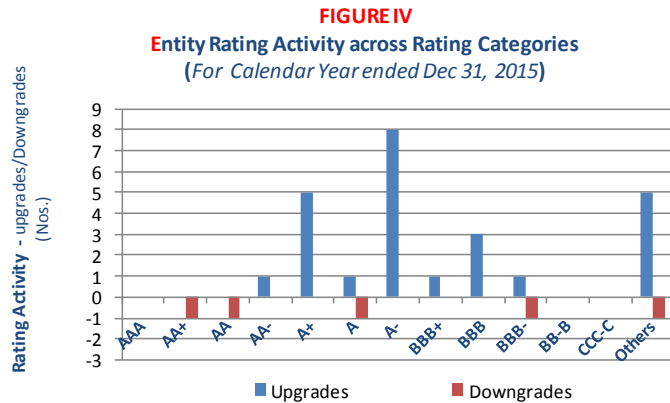
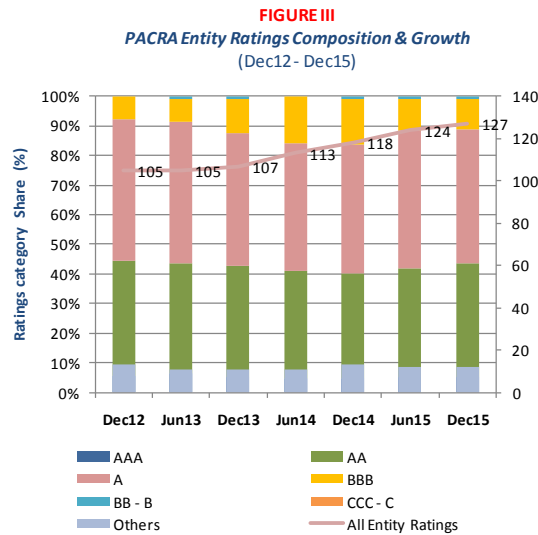


PACRA DEBT INSTRUMENT RATING UNIVERSE (Entry / Exit)
(For Calendar Year ended December 31, 2015)

[Initial / Preliminary Ratings] Issuers Debt Instruments		Issue Size (PKR Mln)	Initial / Preliminary Debt Instrument Ratings	
			Rating	Date
1	Pak Elektron Sukuk I; issued Sept07; restructured Jun13	1,200	A-	06-Jan-15
2	Pak Elektron Sukuk II; issued Mar08; restructured Jun13	1,100	A-	06-Jan-15
3	Soneri Bank TFC II; issued Jul15	3,000	A+	08-May-15
4	Pak Elektron CP; issued Nov15	800	A-	04-Sept-15
	Total Issue Size	5,300		
[Redeemed Ratings] Issuers Debt Instruments			Previous Debt Instrument Ratings	
			Rating	Date
1	Bank Al Habib TFC II, issued Feb07	1,500	AA	16-Feb-15
2	Askari Bank TFC III, issued Nov09	3,000	AA-	01-Jun-15
3	Optimus Sukuk; issued Mar08	250	A	10-Jun-15
4	Engro Fertilizers TFC III; issued Dec09	2,000	AA-	27-Aug-15
5	Allied Bank TFC II; issued Aug09	3,000	AA	03-Sept-15
6	K-Electric TFC II; issued Aug12	1,200	AA+	17-Sept-15
	Total Issue Size	10,950		

Entity Rating Universe -

Composition



✓ Asset Manager Ratings, Project Gradings and Security Gradings have a separate rating scale, hence are exhibited in Chart Legend “Others”

Rating Activity – Entities (CY15)	
Upgrades	Downgrades
20	5*

* Sui Southern Gas Company’s short-term rating was downgraded from “A1+” to “A1” whereas its long-term rating was maintained at “AA-”. Hence, this downgrade is not reflected in Figure IV.

Multinotch Upgrades: 1

1. Maple Leaf Cement Factory (From BBB to A- | 09-Jan-15)

Multiple Upgrades: > once during CY15

1. Engro Fertilizers (From A to A+ | 08-Jan-15) & (From A+ to AA- | 18-Nov-15)
2. Maple Leaf Cement Factory (From BBB to A- | 09-Jan-15) & (From A- to A | 27-Nov-15)

Entity Rating Universe – Rating Outlook Analysis

Rating outlook 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

Ratings Outlook Analysis		
	Positive	Negative
Opening @ Jan 01, 2015	8	5
Translated in Rating Change (-)	5	2
Translated in Outlook Change (-)	0	1
Maintained (+)	3	1
Ratings Not Reviewed (+)	0	0
Withdrawn (-)	0	1
During 2HFY15: New (+)	9	4
Opening @ Jul 01, 2015	12	5



Ratings Outlook Analysis		
	Positive	Negative
Opening @ Jul 01, 2015	12	5
Translated in Rating Change (-)	2	1
Translated in Outlook Change (-)	0	0
Maintained (+)	10	4
Ratings Not Reviewed (+)	0	0
Withdrawn (-)	0	0
During 1HFY16: New (+)	2	2
Opening @ Jan 01, 2016	12	6

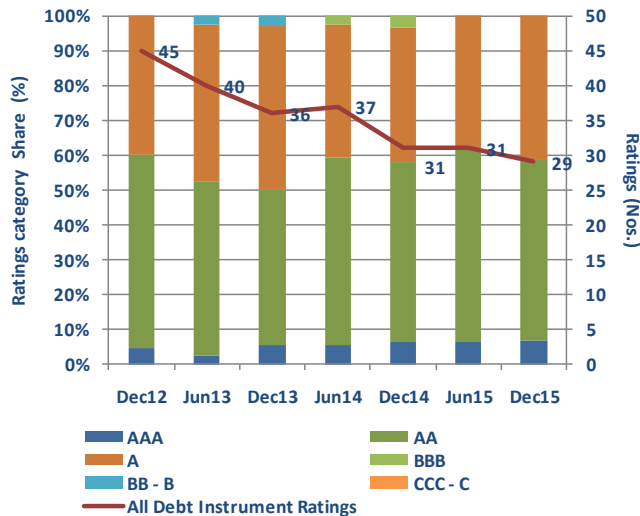
Carrying an Outlook @ 01-Jan-16

Positive (12)	Negative (6)
Al-Baraka Bank (Pakistan)	Pak Libya Holding Company
Autosoft Dynamics	Sui Northern Gas Pipelines
Habib Insurance Company	Sui Southern Gas Pipelines
Adamjee Insurance Company	SME Bank
Adamjee Life assurance Company	Pak Gen Power
Premier Insurance	Prosperity Weaving
Bank Alfalah	
KASB Modaraba	
First Women Bank	
HUM Network	
IGI Investment Bank	
The Bank of Punjab	

Debt Instrument Rating Universe - Composition

FIGURE V

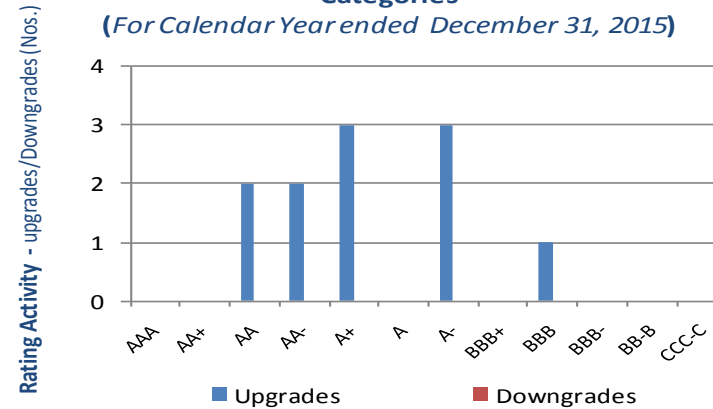
SNAPSHOT - PACRA Debt Instrument Ratings Composition & Growth
(Dec12- Dec15)



✓For CY15, the debt instrument ratings universe has shrunk (CY15: 29 vs. CY14: 31) due to redemptions (CY15: 6). Out of the 6 redemptions, three issuers exercised the early redemption (call) option

FIGURE VI

Debt Instrument Rating Activity across Rating Categories
(For Calendar Year ended December 31, 2015)

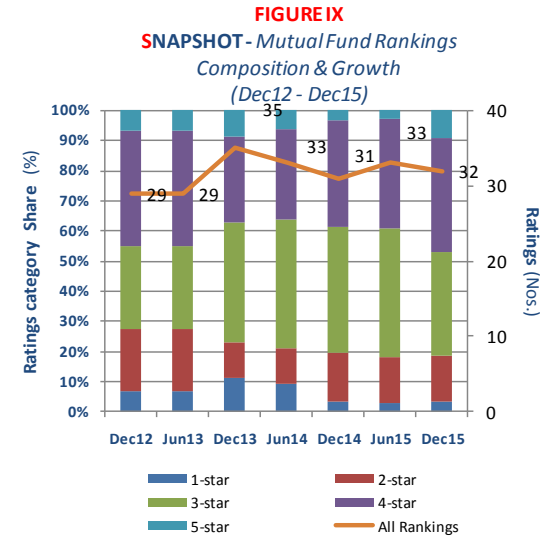
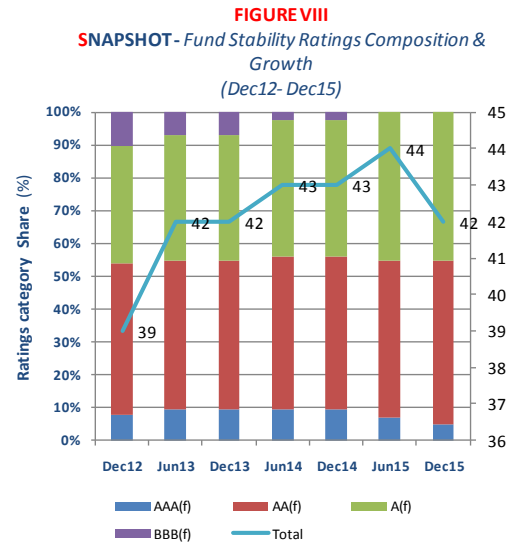
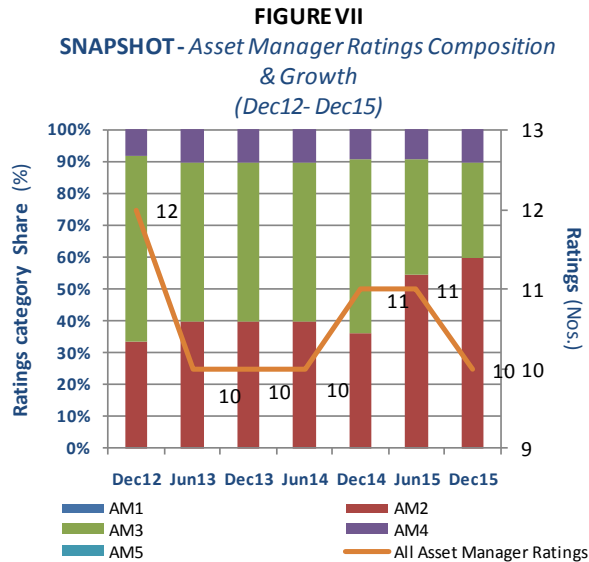


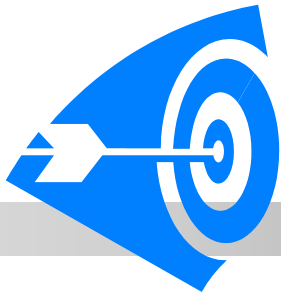
**Rating Activity –
Debt Instruments (CY15)**

Upgrades	Downgrades
11	0

Six (6) of the upgrades emanated from a single group – Engro (Engro Corporation & Engro Fertilizers)

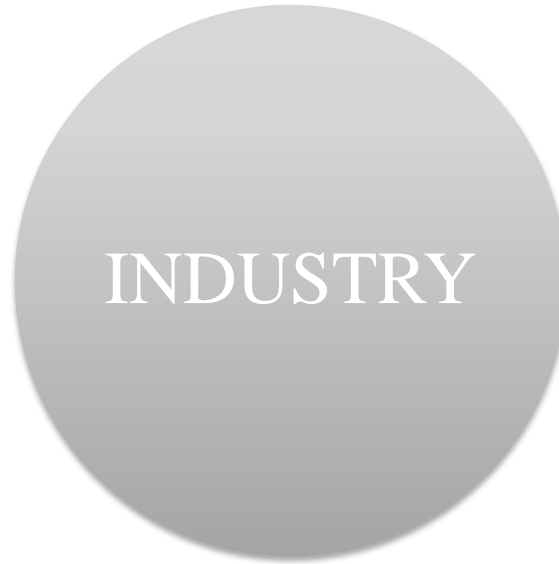
Asset Manager Ratings - *Opinions*





PAKISTAN Rating Industry

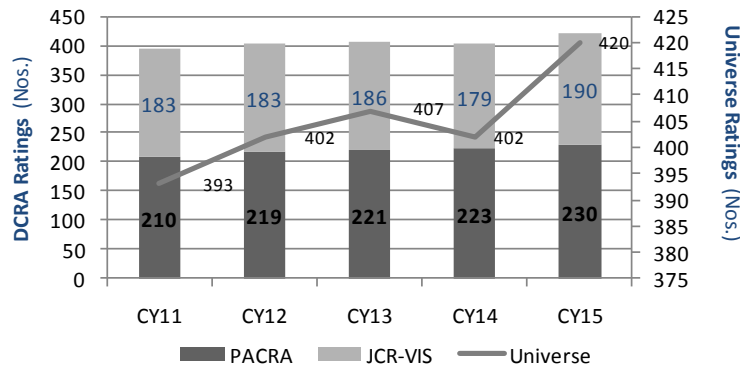
Composition, Size & Trends



2

Pakistan Rating Industry - Composition

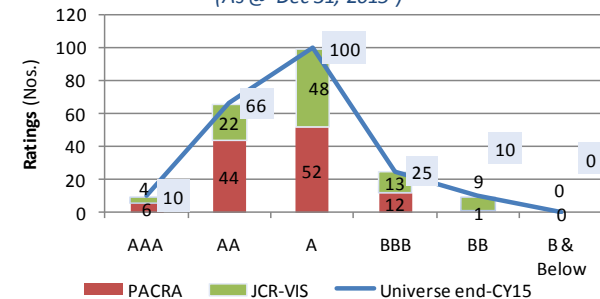
FIGURE X
Pakistan Ratings Universe Growth
(CY12- CY16)



Pakistan's Ratings Universe is shared amongst two domestic credit rating agencies (DCRAs) – PACRA and JCR-VIS. Between themselves, they have 400+ public opinions. On a YoY basis, the universe size has seen an addition of eighteen (18) new opinions.

■The ratings universe is concentrated mostly in high rating categories **[Mean Universe Entity Rating Category: 'A' (Single A) as shown in FIGURE XI]** as most rated entities are either financial institutions (where ratings are mostly mandatory by the regulator) or prominent corporate having very high credit quality.

FIGURE XI
Pakistan Entity Ratings Universe Composition in Rating Categories
(As @ Dec 31, 2015)

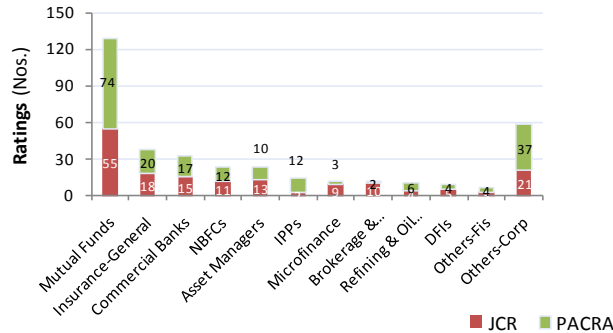


■Excludes Asset Manager Ratings, Security Gradings and Corporate Governance Ratings

Pakistan Rating Industry – Sectors & Products

FIGURE XII

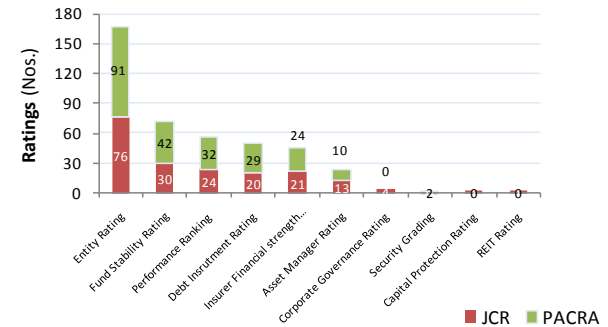
Pakistan Ratings Universe Composition | Sector-wise
(As @ Dec 31, 2015)



Sector-Wise	Mutual Funds	Commercial Banks	Insurance-General	NBFCs	Asset Managers	IPPs	DFIs	Refining & Oil Marketing	Microfinance	Brokerage & Securities Companies	Others-FIs	Others-Corp	Total
PACRA	74	25	20	12	10	14	6	8	3	2	4	52	230
JCR-VIS	55	21	18	12	13	4	8	4	9	10	3	33	190
Total	129	46	38	24	23	18	14	12	12	12	7	85	420

FIGURE XIII

Pakistan Ratings Universe Composition | Product-wise
(As @ Dec 31, 2015)

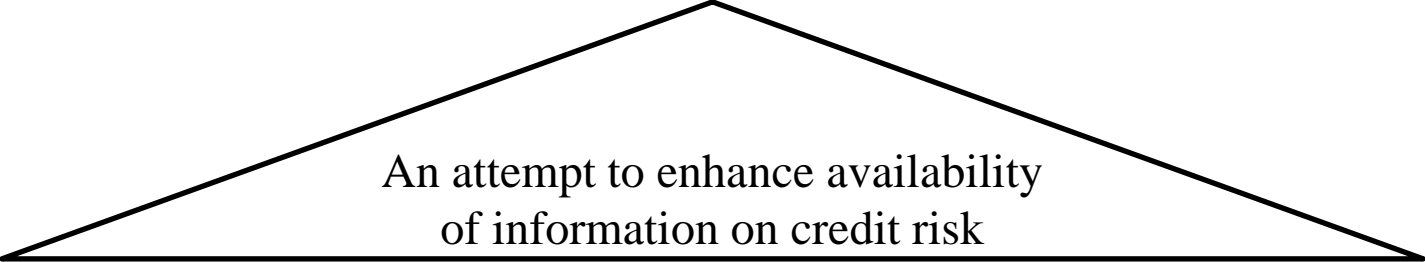


✓ Rating penetration remains low in Pakistan, especially amongst corporates, where ratings are optional primarily driven by their need to employ debt financing - mainly through debt instruments.

Pakistan Rating Industry – *SBP Initiative*

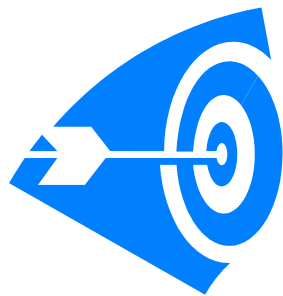
“Effective from **December 31, 2014**, all unrated private sector corporate entities with aggregate outstanding exposure from financial institutions (both fund-based and non-fund based) of PKR 5.0 billion or above, net of liquid assets, will attract risk weight of **115%**”

“Effective from **December 31, 2015**, all unrated private sector corporate entities with aggregate outstanding exposure from financial institutions (both fund-based and non-fund based) of PKR 3.0 billion or above, net of liquid assets, will attract risk weight of **125%**”



An attempt to enhance availability
of information on credit risk

State Bank of Pakistan BPRD Circular Letter No. 02 of 2015: Risk weight for Unrated Large Corporates – Implementation of Basel Capital Framework; issued January 09, 2015



3

Credit Risk

Comment



Rating
Action

Rating
History

Rating
Rationale

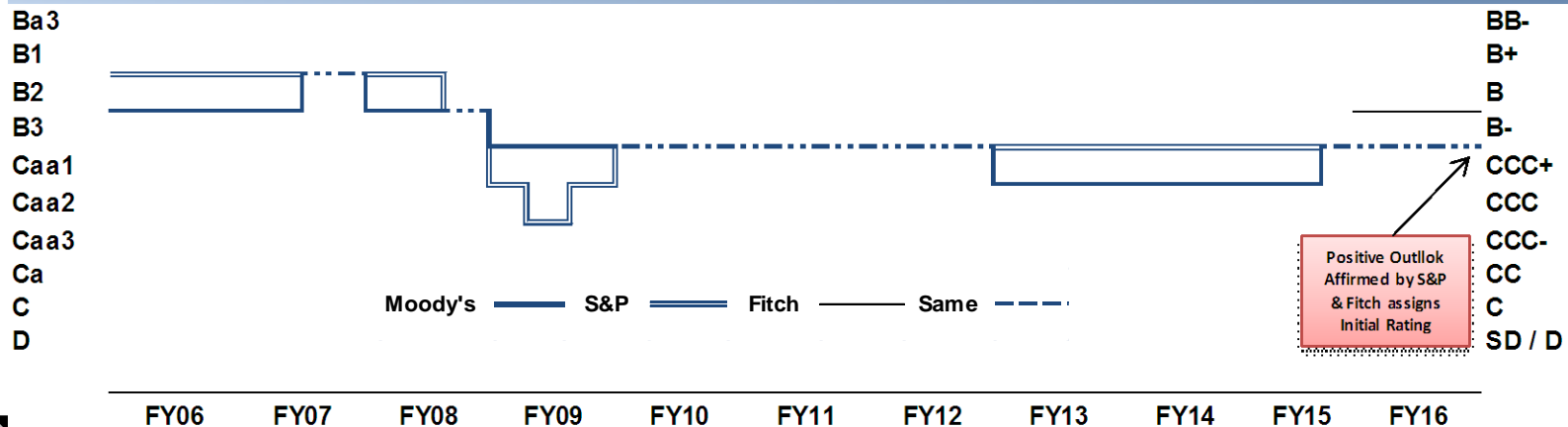
Credit Risk – Sovereign

Sovereign Credit Rating Actions | PAKISTAN

	CURRENT			LAST	
	Moody's	S&P	Fitch	Moody's	S&P
Rating Action	Upgrade	Maintain	Initial	Maintain	Maintain
Rating	B3 (11-Jun15)	B- (22-Oct15)	B (15-Sept15)	Caa1 (25-Mar15)	B- (05-May15)
Rating Modifier	Stable	Positive	Stable	Positive	Positive



Pakistan Rating History



Pakistan – Sovereign

Moody's (11-Jun15):

Rating Action: *Moody's upgrades Pakistan's bond ratings to B3 with a stable outlook*

“Key drivers for the rating action are expectations of:

1. Continued strengthening of the external payments position; and
2. Sustained progress in structural reforms under the government's program with the IMF.

Upward triggers to the rating would stem from sustained progress in structural reforms that would remove infrastructure impediments and supply-side bottlenecks. A fundamental strengthening in the external liquidity position and meaningful reduction in the deficit and debt burden would also be credit positive.

Conversely, we would view a stalling of the ongoing IMF program or the withdrawal of other multilateral and bilateral support, a deterioration in the external payments position or a more unstable political environment to be credit negative.”

S&P (22-Oct15):

Rating Action: *Ratings On Pakistan Affirmed At 'B-/B' With Positive Outlook*

“Our sovereign credit ratings on Pakistan reflect the country's legacy constraints, such as the economic dislocations brought on by past extra-constitutional changes in government, an ongoing low-intensity civil war, and by regional conflicts with neighboring countries. These factors have weakened Pakistan's institutional and governance effectiveness and depressed the prosperity of the nation.

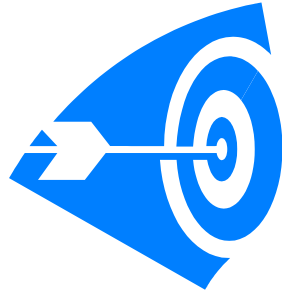
The positive outlook indicates that we could raise our rating on Pakistan in 2016. Steady progress on the government's reform program will be a necessary condition. On the other hand, we may revise the outlook to stable if the government's reform program stalls or if internal security worsens to the point of the turmoil seen earlier this decade.”

Fitch Ratings (15-Sept15):

Rating Action: *Fitch assigns “B” Ratings to Pakistan*

“Pakistan's 'B' ratings balance the country's underdevelopment, political instability, weak public finances and history of macroeconomic volatility against the stabilisation and progress on reforms achieved under the country's latest International Monetary Fund (IMF) programme. The main factors that could, individually or collectively, lead to a negative rating action are: (i) Policy slippage that leads to renewed pressure on basic economic and financial stability, evident in a rise in inflation or the current account deficit, (ii) Deterioration in the fiscal position that leads to a sharp or sustained rise in government debt ratios, & (iii) Sharp deterioration in political stability

The main factors that could, individually or collectively, lead to a positive rating action are: (i) A strengthened business environment supported by an improved security situation and decreased political risk, (ii) Build-up of foreign reserves, and (iii) Sustained fiscal consolidation, strengthening of the revenue base, and reduction in government debt ratios.



PACRA Capacity Building

Endeavors, Initiatives, On-going Activities



Public
Awareness
Programs

Capital
Market
Development

PACRA Capacity Building Endeavors

Capital Market Development

**Mr. Adnan Afaq –
Managing Director
and Mr. Shahzad
Saleem (Chief
Operating Officer)
recently visited Sri
Lanka and met the
securities industry
regulators**



PACRA has been providing regulatory consultancy to Iran's Securities and Exchange Organization since 2012 and recently made another visit to Iran in this connection



•Bibliography

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- www.jcrvis.com.pk
- www.sbp.com.pk

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About PACRA

PACRA – Pakistan's pioneer credit rating agency – is continuing its journey in its second decade of operations. The company distinguishes itself through a culture of constant innovation, improvement and service quality. PACRA offers a complete range of credit rating services. It has a comprehensive organizational structure and set of resources to support its business. PACRA team of 30 analysts comprises a mix of highly qualified business professionals and accountants. To date, PACRA has assigned over three thousand five hundred opinions

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