



The Pakistan Credit Rating Agency Limited

ESCORTS INVESTMENT BANK LIMITED

| | NEW [NOV-16] | PREVIOUS [MAR-16] |
|------------|-------------------------|------------------------------|
| Long-Term | BB | BBB |
| Short-Term | B | A3 |
| Outlook | Negative | Stable |

| REPORT CONTENTS |
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| 1. RATING ANALYSES |
| 2. FINANCIAL INFORMATION |
| 3. RATING SCALE |
| 4. REGULATORY AND SUPPLEMENTARY DISCLOSURE |

NOVEMBER 2016

Profile & Ownership

- Escorts Investment Bank Limited (EIBL) incorporated in 1996, is listed on Pakistan Stock Exchange.
- EIBL has a head office and two branches network in metropolitan cities.
- EIBL is majority owned by the Escort group (71%), directly by individuals and through ESSEM Power (Private) Limited.

Governance

- BoD comprises five members including the CEO. It constitutes three members of Escorts Group. Currently there is no independent director on the board.
- The BoD is experienced with diverse background.
- One board committee; Audit committee performs as per defined terms of reference. However, Chairman Audit committee is not an independent director.
- Human Resource committee is yet to be formed.

Management

- Ms. Shazia Bashir, the CEO of EIBL, is at current position since April, 2010. She has a long association with the bank, in different strategic roles, since its inception.
- Management team carries adequate experience profile.

Risk Management Framework

- During FY16, owing to limited liquidity bank has not made any new disbursement. With no new addition non-performing loans are fully provided.
- There is a significant decrease in investments (end-Sep16: PKR 380mln, end-Jun16: PKR 395mln; end-Jun15: PKR 448mln) mainly on account of exit of investment in Commodities and equity market. Investment in government securities increased (FY16: 49%, FY15: 37%). PIBs constitute the major portion of investments followed by T-bills.
- Liquidity position is inadequate (1QFY17: 15%; FY16: 18%; FY15: 19%).

Performance

- During FY15, EIBL continued to post net interest loss owing to unfavorable gap between return generating assets and interest bearing liabilities.
- The bank holds sizeable net non-earning assets of PKR 544mln (1.66x of equity) as at end-Sep16 (end-Jun16: PKR 546mln; end-Jun15: PKR 515mln), mainly comprising tax refunds from the Government of PKR 176mln at end-Sep16 (end-Jun16: PKR 176mln; end-Jun15: PKR 210mln), and Deferred Tax of PKR 137mln at end-Sep16 (end-Jun16: PKR 137mln; end-Jun15: PKR 137mln).
- During 1QFY17, EIBL has continued its loss making streak and booked a loss of PKR 26mln (end Sep15: PKR 16mln).
- The performance of ESCAP - wholly owned subsidiary yet depressed leading to going concern issues (1QFY17: PKR -4.5mln; FY16: PKR -15mln; FY15: PKR -16mln).
- Going forward, revival of business operations of EIBL is of serious concern. Though the management is optimistic about achieving sustainability through cost management as well as cash injection from directors to improve liquidity, but material translation of the same is yet to be seen.

Financial Risk

- EIBL's leveraging sustained as shown by its capital structure (Total Debt / Equity at end-Sep15: 2.3x (end-Jun16: 2.3x; end-Jun15: 2.3x).
- Funding is largely through CODs, which showed a dip of PKR 381mln (end-Jun16: PKR 698mln; end-Jun15: PKR 1,079mln).
- EIBL is non-compliant with required MCR i.e. PKR 750mln (end-Jun16: PKR 352mln), however, the regulator has granted grace period till November 25, 2016.
- The sponsors are looking to induct an equity partner to enhance capital base of the bank.

RATING RATIONALE

EIBL is experiencing deterioration in its business and financial profile. This has severely diminished its risk absorption capacity- also the bank has not been able to meet minimum equity requirement of PKR 750mln. The management has not been able to arrest declining trend in performance. The quantum of loss has gone up significantly in recent periods eroding the bank's equity. The bank's woes primarily arise from squeezing size of earning assets, whereas non-earning assets now dominate its asset base. Given reduced equity base, the assets are mainly funded through deposits. Consequently the bank has increased liquidity gap. It would be challenging to meet sizeable deposit withdrawal call.

KEY RATING DRIVERS

The management is putting in multiple efforts to cure the situation. The focus is on arranging fresh equity through a new partner. Herein, timeliness is critical. Any significant delay would magnify the bank's challenges and may put pressure on ratings. Continuous erosion in equity, in turn risk absorption capacity, is highlighting urgency of break-even on a sustainable basis. In this regard, curtailing unfavorable gap of earning assets vis-a-vis interest bearing liabilities remains important.



Escorts Investment Bank Limited

PKR mln

| BALANCE SHEET | 30-Sep-16 | 30-Jun-16 | 30-Jun-15 | 30-Jun-14 |
|---|------------------|------------------|------------------|------------------|
| | 3M FY17 | FY16 | FY15 | FY14 |
| Assets | | | | |
| Investments (Others) | 9 | 25 | 106 | 404 |
| Equity | 9 | 25 | 35 | 84 |
| Commodity | 0 | 0 | 71 | 320 |
| Advances | 139 | 191 | 527 | 459 |
| Finances | 139 | 191 | 527 | 459 |
| Other Earning Assets | 384 | 398 | 451 | 794 |
| Fixed Assets | 125 | 132 | 137 | 144 |
| Net Non-Performing Advances | 0 | 0 | 0 | 0 |
| Other Non Earning Assets | 544 | 546 | 515 | 522 |
| Total Assets | 1,192 | 1,263 | 1,631 | 1,919 |
| Liabilities | | | | |
| Deposits | 639 | 701 | 1082 | 1189 |
| Borrowings | 115 | 100 | 0 | 69 |
| Other Liabilities | 82 | 79 | 61 | 153 |
| Equity | | | | |
| Equity (including surplus on revaluation) | 357 | 383 | 489 | 509 |
| Total Liabilities & Equity | 1,192 | 1,263 | 1,632 | 1,920 |

INCOME STATEMENT

| | | | | |
|-------------------------------------|-------------|--------------|-------------|-------------|
| Net Interest / Mark Up Revenue | (15) | (34) | (38) | (25) |
| Other Operating Income/ (Loss) | 0 | (17) | 50 | 71 |
| Total Revenue / (Loss) | (15) | (50) | 12 | 46 |
| Administrative and General Expenses | (11) | (61) | (66) | (63) |
| Pre-provision Profit | (26) | (111) | (54) | (17) |
| Provisions | - | - | 1 | 0 |
| Pre-tax Profit / (Loss) | (26) | (111) | (53) | (17) |
| Net Income / (Loss) | (26) | (113) | (21) | (16) |

Ratio Analysis

| | | | | |
|-----------------------------------|-------|-------|-------|-------|
| Performance | | | | |
| ROA | -8.6% | -8.6% | -1.2% | -1.0% |
| Coverages | | | | |
| Liquid Assets / Total Debt | 15.3% | 17.8% | 19.2% | 21.1% |
| Loan Loss Coverage | | | | |
| Impaired Lending / Gross Finances | 25.3% | 19.8% | 8.2% | 9.3% |
| Net Impaired Finances / Equity | 0.0% | 0.0% | 0.0% | 0.0% |

Escorts Investment Bank Limited

Nov-16

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STANDARD RATING SCALES & DEFINITIONS

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

| LONG TERM RATINGS | | SHORT TERM RATINGS |
|--|---|---|
| AAA | <p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p> | <p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p> |
| AA+ AA AA- | <p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p> | |
| A+ A A- | <p>High credit quality. Low expectation of credit risk.</p> <p>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.</p> | |
| BBB+ BBB BBB- | <p>Good credit quality. Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p> | |
| BB+ BB BB- | <p>Moderate risk. Possibility of credit risk developing.</p> <p>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.</p> | |
| B+ B B- | <p>High credit risk.</p> <p>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.</p> | |
| CCC CC C | <p>Very high credit risk.</p> <p>“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.</p> | |
| D | <p>Obligations are currently in default.</p> | |

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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’.

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, a suspended 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, or e) the entity/issuer defaults.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/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.



Name of Issuer
Sector
Type of Relationship

Escorts Investment Bank Limited
 Investment Financial services
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

| Dissemination Date | Long Term | Short Term | Outlook | Action |
|--------------------|-----------|------------|----------|----------|
| 16-Mar-16 | BBB | A3 | Stable | Maintain |
| 20-Mar-15 | BBB | A3 | Stable | Maintain |
| 27-Mar-14 | BBB | A3 | Stable | Maintain |
| 22-Feb-13 | BBB | A3 | Positive | Maintain |
| 14-Mar-12 | BBB | A3 | Positive | Upgrade |

Related Criteria and Research

Rating Methodology
 Research

Non-Banking Finance Companies Methodology
 Investment Banking - Viewpoint | Jan-16

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

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 PACRA ensures that the credit rating assigned to an entity or instrument should 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

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PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer
 PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so
 PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

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[Probability of Default \(PD\)](#)

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