



The Pakistan Credit Rating Agency Limited

ENTITY RATINGS REPORT

PAKISTAN KUWAIT INVESTMENT COMPANY LIMITED

ENTITY	CURRENT	PREVIOUS	DATE
Pakistan Kuwait Investment Company Limited (PKIC)	Ratings: Long Term: AAA Short Term: A1+	Ratings: Long Term: AAA Short Term: A1+	14 th December, 2017
	Outlook: Stable	Outlook: Stable	

RATING RATIONALE

The ratings of Pakistan Kuwait Investment Company (Private) Limited (PKIC) primarily rests on the equal ownership of the company by Government of Pakistan (GoP) through State Bank of Pakistan (SBP) and by Government of Kuwait through Kuwait Investment Authority (KIA). The ratings benefit from the company's strong financial profile emanating from robust risk absorption capacity and sound liquidity. Despite increasing credit offtake in the country, PKIC's lending book did not expanded much following a 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. The company has focused on treasury operations where it is enhancing its participation in money market. The liquidity profile of the institution remains comfortable. PKIC is currently operating with a low-leveraged structure. It has access to financial institutions to support its treasury and lending operations. Going forward, the management, while continuing to prudently increase its advances book, would focus on non-fund based revenue stream. Given limited depth in participation towards development of long gestation projects, Development Financial institutions (DFIs) largely operate on turf common to commercial banks where limited outreach, low funding base, and high competition remain key challenges.

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 and at the same time upholding governance standards remains critical for the ratings.

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DECEMBER 2017



PAKISTAN KUWAIT INVESTMENT COMPANY (PRIVATE) LIMITED	
PROFILE	
Incorporated	1979
Major business lines	▪The objective of the company is to profitably promote industrial investment in Pakistan.
Legal status	Un-Listed
Head Office	Karachi

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> Industry has grown with achieving a CAGR of 8% in the lending portfolio and 19% in funding, over a span of 5 years Portfolio quality is improving with better risk monitoring and conservative lending Going forward, to compete with the other financial institutions (commercial banks primarily), the industry players need to identify new niche for the expansion of DFIs operations

OWNERSHIP	GOOD
<ul style="list-style-type: none"> Pakistan Kuwait Investment Company (Private) Limited (PKIC) was established in March 1979 as a joint venture between the Governments of Pakistan (GoP) and Kuwait with an objective to profitably promote industrial investments PKIC is equally owned by GoP through the State Bank of Pakistan (SBP) and by Government of Kuwait through Kuwait Investment Authority (KIA), representing their respective governments. Kuwait has been rated "Aa2" with stable outlook in May 2017 by Moody's Kuwait Investment Authority has primarily investments in real estate, private equity, public equity, fixed income, and alternative investment markets across the globe 	

GOVERNANCE	GOOD
<ul style="list-style-type: none"> The overall control of the company vests in a six member board of directors (BoD), with equal representation from both governments. The Chairman of the board, Mr. Abdullah Abdulwahab Al-Ramadhan, a representative of KIA, has extensive experience in the field of finance and investment management. There are three committees of the board to ensure smooth and effective monitoring KPMG Taseer Hadi & Company, auditors for the company since Dec'14, have given an unmodified opinion and review for the financials for the year end Dec'16 and half year Jun'17. 	

MANAGEMENT	GOOD
<ul style="list-style-type: none"> Well-defined organizational structure to align its operations; entire operational set-up of the company falls under the purview of the Managing Director except for Head - internal audit who reports to Audit Committee and Head - risk management who reports to Risk Committee Mr. Mansur Khan, the MD, is associated with the company since Feb'14, carries over 30 years of diversified experience in the banking and development sector locally and abroad Key management personnel are qualified having diversified experience. 	

RISK MANAGEMENT	GOOD
<ul style="list-style-type: none"> Developed and implemented various models and manuals to minimize the company wide risks, risk management software in place Total assets managed to grow by 7%, while advances portfolio constituting 14% of total assets declined by 31% Concentration in top 3 sectors increased to - textile (45%) power (14%) and petroleum (9%); overall asset quality improved with sustained loan loss coverage (~99%) Investment book increased by 24%; composition of portfolio remained same (investments in associates: 55%, government securities: 25%, other equity investments: 15% and TFCs: 5%) Investment in associates include, Meezan Bank Limited (30%), The General Tyre and Rubber Company (30%), Al-Meezan Investment Management Limited (30%) and few other small investments Market value of shares in listed associates amounted to ~PKR 28 bln at end-Sep17 	

PERFORMANCE	GOOD
<ul style="list-style-type: none"> PKIC achieved 5% share in the lending portfolio of the DFI industry in Sep17, share in funding remained nominal (2%) Net markup revenue decline 23% YoY in Sep'17, capturing the impact of maturity of high yielding PIBs Significant increase in other operating income led by share of profit from associates (9M17: PKR 1.6bln, CY16: PKR 3bln, CY15: PKR 1.9bln); profits from associate though declined, continued to support total net revenue (forming 69%) Operational expenses were kept in check with cost to total revenue ratio of 15% Reduced markup revenue along with higher provisioning expense, resulted in 40% decline in profitability The management is eyeing significant growth in advances, with higher disbursements to economically viable and technically feasible projects Identifying new revenue streams would also be in focus 	

FINANCIAL RISK	GOOD
<ul style="list-style-type: none"> Though COI base is concentrated with only one group, liquidity risk still remains on the lower side owing to nominal presence of COIs (COIs as a percentage of earning assets: 9M17: 0.01%, CY16: 0.01%; CY15: 0.7%; CY14: 1.7%) Diverse investment book with limited fund base, kept the liquidity profile intact The capital adequacy remains strong at 38.75% (CY16: 40%), remaining well above regulatory requirement Given the low risk profile of overall assets book, a large portion of capital is available for materialization of growth plans 	



Pakistan Kuwait Investment Company (Pvt.) Limited

PKR mln

BALANCE SHEET	30-Sep-17	31-Dec-16	31-Dec-15	31-Dec-14
	9M	Annual	Annual	Annual
Assets				
Earning Assets				
Advances	3,003	4,314	4,997	2,667
Debt Instruments	1,255	1,380	1,438	822
- Total Finances	4,258	5,694	6,435	3,489
Govt Securities	6,439	3,088	6,645	6,590
Equity Investments	3,704	3,930	3,865	3,657
Investments in Associates & Subsidiaries	13,849	12,807	10,194	9,832
- Total Investments	23,992	19,825	20,704	20,079
Others	408	2,651	21	48
Non Earning Assets				
Non Earning Cash	62	62	64	54
Deferred Tax	-	-	-	-
Net Non Performing Finances	1	108	117	131
Fixed Assets & Others	393	601	1,026	833
Total Assets	29,114	28,941	28,367	24,634
Liabilities				
Certificates of Investment	4	4	180	398
Borrowings	2,587	2,661	6,247	3,557
Interest Bearing Liabilities	2,591	2,665	6,427	3,955
Non Interest Bearing Liabilities	1,853	1,588	1,324	1,063
Equity				
Total Equity	23,761	22,823	19,727	18,512
Revaluation Surplus	909	1,865	889	1,104
TOTAL LIABILITIES & EQUITY	29,114	28,941	28,367	24,635

INCOME STATEMENT

Interest/ markup earned	562	1,028	1,230	1,409
Interest/ markup expensed	(78)	(244)	(365)	(620)
Net Interest/ markup revenue	484	784	865	789
Other Income	1,880	3,787	2,620	2,803
Total revenue	2,364	4,571	3,485	3,592
Non Interest/ Non Markup expensed	(355)	(443)	(545)	(559)
Pre-provision Profit	2,009	4,128	2,940	3,033
Provision/ (Reversal)	122	1	(435)	163
Taxes	(680)	(676)	(676)	(518)
Net Income	1,451	3,452	1,829	2,678

Ratio Analysis

Performance

ROE	8.3%	16.2%	9.6%	15.7%
Cost-to-Total Net Revenue	15.0%	9.7%	15.7%	15.6%
Capital Gains/ Total Revenue	3.8%	7.0%	10.1%	10.6%

Capital Adequacy

Equity / Total Assets	81.6%	78.9%	69.5%	75.1%
Capital Adequacy ratio as per SBP	38.8%	39.8%	38.9%	45.8%

Funding & Liquidity

Liquid Assets/ Deposits & Borrowings	394.0%	275.3%	168.3%	256.1%
Finances/ Deposits & Borrowings	164.4%	271.9%	125.8%	131.9%

Loan Loss Coverage

Loan Loss Provisions/ Impaired Lending	99.9%	93.0%	92.8%	92.3%
Net Impaired Lending/Total Equity	0.0%	0.5%	0.6%	0.7%

Pakistan Kuwait Investment Company (Pvt.) Limited

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
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<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+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	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.	
A-		
BBB+	Good credit quality. Currently a low expectation of credit risk.	
BBB	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.	
BBB-		
BB+	Moderate risk. Possibility of credit risk developing.	
BB	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.	
BB-		
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-		
CCC	Very high credit risk. Substantial credit risk	
CC	“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.	
C		
D	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

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Name of Rated Entity
Sector
Type of Relationship

Pakistan Kuwait Investment Company (Private) Limited
 JVFI
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
14-Dec-17	AAA	A1+	Stable	Maintain
14-Jun-17	AAA	A1+	Stable	Maintain
6-May-16	AAA	A1+	Stable	Maintain
6-May-15	AAA	A1+	Stable	Maintain
23-Jun-14	AAA	A1+	Stable	Maintain
14-May-13	AAA	A1+	Stable	Maintain
21-Jun-12	AAA	A1+	Negative	Maintain

Related Criteria and Research

Sector Study | DFI | Oct17

Rating Methodology

Bank Rating Methodology

Rating Analysts

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

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