



The Pakistan Credit Rating Agency Limited

# IGI INVESTMENT BANK LIMITED

## RATING REPORT

	<b>NEW [DEC-17]</b>	<b>PREVIOUS [ JUN-17]</b>
Long-Term	BBB-	BBB-
Short-Term	A3	A3
Outlook	Developing	Developing
Action	Rating Watch	Rating Watch

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DECEMBER 2017

**Profile & Ownership**

- IGI Investment Bank Limited (IGI IBL) incorporated in 1990, is listed on Pakistan Stock Exchange.
- IGI IBL has a head office and two branches network in metropolitan cities.
- IGI IBL is majority owned by the Packages group (49%), directly by individuals and through different group companies, mainly IGI Insurance Limited (42%).
- Sponsor's constant support in the past in the form of subordinate loan.
- IGI Group financial services restructuring leading to merger between IGI investment bank and IGI Insurance Limited. BOD of both the companies have approved the merger. The company has applied petition in the court for the approval of merger (effective 31-Dec-16) and then de-merger (effective 1-Jan-17).

**Governance & Management**

- BoD comprises seven members including the CEO constituting four members of Packages Group and three independent directors.
- The BoD is well poised with diverse background and expertise.
- Two board committees performing roles as per defined terms of reference.
- Mr. Syed Raza Hussain Rizvi, a Chartered Accountant by profession, is the CEO.
- He has been associated with IGI Group for the last six years.
- Management team carries adequate experience profile.

**Risk Management Framework**

- Majority of the credit and investment portfolio (loans, leases, and TFCs) is impaired, yet provided in full.
- IGI IBL also has investment in a wholly owned subsidiary IGI Finix Securities Limited (Net Profit / (Loss) IGI Finix: 1QFY17: PKR 5mln; FY16: PKR 20mln; FY15: PKR -18mln).
- Other earning assets comprises i) non-tax refunds receivables, ii) small investments in Govt. securities and iii) equity and bank deposits.
- Decrease in non performing book (1QFY17: PKR 553mln; FY16: PKR 559mln; FY15: PKR 598mln; FY14: PKR 659mln) on account of recovery of PKR 28mln.
- Net Impaired lending to equity significantly reduced (1QFY17: 7%; FY16: 6%; FY15: 54%, FY14: 128%).

**Performance**

- During FY16, owing to low financing and lack of non-fund based income net, there is net interest loss of PKR 4mln. However, reversal in provisioning and capital gain respite the bottom line to be at break even.
- Cash inflows from recoveries and capital gains mainly utilised in operations and settlement of deposits.
- In 1QFY1, net loss of PKR 1mln is reported.

**Financial Risk**

- IGI IBL's main source of funding is sponsor's loan of PKR 285mln yet repayment of PKR 49mln has made till end-Sep16.
- IGI Finix Securities Limited has provided loan limit of PKR 85mln.
- MCR compliance was pending upon merger with IGI Finix Securities Limited. However, proposed merger was cancelled owing to new Group structure changes.

**RATING RATIONALE**

The sponsor of IGI group intends to redesign the overall corporate structure of its multiple businesses primarily in the area of financial services. Formation of a Group financial services holding company is proposed. A two-step transaction is envisaged involving i) merger of IGI Investment Bank Limited (IGI IBL) with and into IGI Insurance Company (IGI) and ii) demerger of IGI Insurance to form a Holding Company having separate subsidiaries for different business lines – General Insurance, Life Insurance, Brokerage and Investments. In this regard, the board of directors of IGI Investment Bank Limited (IGI IBL) made two important decisions: (i) cancellation of the previously proposed merger of IGI Finix Securities Limited, wholly owned subsidiary of IGI IBL, with and in to the IGI IBL, (ii) approval of IGI IBL's merger with and into IGI Insurance Limited – having 42% stake in IGI IBL. The merger would be under share swap arrangement. Shareholders of IGI IBL will be issued IGI's shares according to a swap ratio of 1:92. A petition for the approval of the scheme of amalgamation and arrangement has been filed in the Honorable High Court of Sindh at Karachi which is pending approval. There was no challenge, the court has reserved the order by Aug 2017 and yet to be announced; likely by end Dec 2017. On standalone basis, IGI IBL maintains a subdued operational profile. Business operations are squeezed. However, the bank continued to generate limited revenues from non-fund based segments. Meanwhile, sponsor's support remained intact.

**KEY RATING DRIVERS**

PACRA has reaffirmed the IGI IBL's ratings on Rating Watch [Long term: BBB, Short term: A3], while the outlook is developing. Entity ratings of IGI IBL would be withdrawn if the merger is finalized and IGI IBL would cease to exist as an entity. PACRA would continue to monitor these developments and the ratings would be updated accordingly.



## IGI Investment Bank Limited

PKR mln

BALANCE SHEET	30-Sep-16	30-Jun-16	30-Jun-15	30-Jun-14
	1QFY17	FY16	FY15	FY14
<b>Assets</b>				
Investments (Others)	21	14	13	30
Equity	21	14	13	30
Debt	0	0	0	0
Advances	222	226	222	237
Finances	222	226	222	237
Other Earning Assets	232	259	229	236
Fixed Assets	4	4	5	6
Net Non-Performing Advances	0	0	23	36
Other Non Earning Assets	188	175	197	310
<b>Total Assets</b>	<b>646</b>	<b>664</b>	<b>653</b>	<b>789</b>
<b>Liabilities</b>				
Deposits	216	220	230	410
Borrowings	306	306	323	285
Other Liabilities	69	88	51	63
<b>Equity</b>				
Equity (including surplus on revaluation)	56	50	49	32
<b>Total Liabilities &amp; Equity</b>	<b>647</b>	<b>664</b>	<b>653</b>	<b>789</b>

## INCOME STATEMENT

Net Interest / Mark Up Revenue	(1)	(4)	(8)	(42)
Other Operating Income/Loss	1	13	43	12
Total Revenue	(0)	9	35	(30)
Administrative and General Expenses	(6)	(32)	(42)	(48)
Pre-provision Profit	(6)	(22)	(20)	(90)
Provisions	5	19	44	(46)
Pre-tax Profit	(1)	(2)	25	(135)
<b>Net Income</b>	<b>(2,213)</b>	<b>(2,212)</b>	<b>(2,226)</b>	<b>(2,090)</b>

## Ratio Analysis

<b>Performance</b>				
ROA	-0.6%	0.0%	2.4%	-11.8%
<b>Coverages</b>				
Liquid Assets / Total Debt	22.53%	29.13%	21.64%	3.98%
<b>Loan Loss Coverage</b>				
Impaired Lending / Gross Finances	71.3%	71.2%	72.9%	73.6%
Net Impaired Finances / Equity	6.0%	5.9%	54.1%	128.9%

## 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.

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

**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.

