The Pakistan Credit Rating Agency Limited

PAK LIBYA HOLDING COMPANY (PRIVATE) LIMITED

	NEW [JUN-16]	PREVIOUS [JUN-15]
Long Term	AA-	AA-
Short Term	A1+	A1+
Outlook	Negative	Negative

REPORT CONTENTS

JUNE 2016

Profile &Ownership

- Pak Libya Holding Company (Private) Limited (PLHC) was established in October 1978 as a joint venture between the Governments of Pakistan (GoP) and Libya.
- The primary objective of the Company is to promote development of industrial and economic infrastructure of Pakistan.
- PLHC is equally owned by GoP through the State Bank of Pakistan (SBP) and by Government of Libya through Libyan Foreign Investment Company (LAFICO), representing their respective governments.

Governance

- The overall control of the Company vests in board of directors (BoD), comprising experienced professionals.
- Presently, the board comprises six members with equal representation from both governments.
- The Chairman of the board, Mr. Bashir B. Omer, has worked as an investment banker and has over 21 years of experience in management and accounting.

Management

- PLHC has a well-defined organizational structure in place with multiple management committees and defined reporting lines.
- The Managing Director, Mr. Abid Aziz, possesses 33 years of extensive experience in the financial sector and carries with him international exposure as well.

Risk Management

- During CY15, PLHC's total assets increased by 23%, largely on the back of growth in investments [Investments as % of total assets at end-CY15: 63%, CY14: 51%].
- The client concentration remained high with top 20 customers representing 90% of PLHC's overall advances (CY14: 90%). Corporate segment continued its dominance on the book
- During CY15, the Company sustained its overall asset quality; thus loan loss coverage ratio remained stable (Dec15: 80%, Dec14: 79%).
- However, in 1QCY16, the impaired portfolio reduced as the Company booked reversal on account of repossession of assets of KEL. Although realization of value of repossessed asset as per the management's expectation would remain a challenge.

Performance

- During CY15, better spread margin coupled with higher earning assets helped PLHC in registering increase in net interest revenue.
- Growth in other operating income majorly attributable to gain on sale of investments; supported total net revenues
- PLHC was able to post stronger profit after tax YoY (CY15: PKR 305mln; CY14: 233mln) despite higher tax and provisioning expense.
- During 1QCY16, the Company had a nominal pre provision operating loss. Although operational expenses rationalized, significant decline in total net revenue in 1QCY16 from 1QCY15 was due to reduced interest rates and capital gain on government securities. The Company booked a significant reversal against its exposure in KEL. This provided respite to PLHC's bottom line (1QCY16: PKR 869mln; 1QCY15: PKR 36mln).
- Going forward, sale of repossessed assets of KEL is management's priority. The management, while upholding its stance on quality lending approach, intends to focus on SME financing.

Capital & Funding

- PLHC's funding base consists of Repo borrowings, COIs and borrowings from FIs.
- PLHC's liquidity profile improved considerably (Liquid Assets / Deposits and Borrowings: 1QCY16: 100%; CY15: 93%; CY14: 83%).
- The Company's capital adequacy remains strong at 38% (CY14: 40%).
- PLHC is yet to comply with MCR (required: PKR 6bln, Actual: PKR ~4.4bln as at end-Mar16).

Rating Rationale

The ratings reflect sovereign parentage - jointly owned by Governments of Pakistan and Libya. However, so far, this strength has not translated fully in supporting the entity in meeting deficiency in its regulatory capital requirement. On stand-alone basis, PLHC witnessed higher profitability mainly owing to sizeable gain on sale of government securities during CY15. The falling interest rate in the market has resulted in reduced spreads on interest earning assets in 1QCY16. Moreover, treasury operations also had lower return. This resulted in a YoY decline in performance from operations in 1QCY16. However, unrealized gain stood at PKR 286mln at end-Mar16. The Company managed to repossess assets of Kamoki Energy Limited (KEL) - PLHC's largest non-performing exposure. Resultantly, overall pre-tax profitability of the company in 1QCY16 increased to PKR 917mln. Although the management de-classified related non-performing loan (net PKR 868mln reported benefit in profitability), realization of the repossessed asset may take time. Going forward, the management continues to cautiously expand its existing loan book through further penetrating in SME segment while initiating secured consumer financing for corporate employees.

Key Rating Drivers

The ratings have a "negative outlook", signifying the need to comply with regulatory minimum capital requirement (shortfall of PKR 1.574bln as at end-Mar16). However, the Government has so far not made any budgetary allocation for equity injection. Nevertheless, the management's ability to develop stable revenue stream and improving asset quality remains important to bridge the statutory gap and maintain the ratings.

Pak Libya Holding Company (Pvt.) Limited

(PKR mln)

BALANCE SHEET	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
	3M	Annual	Annual	Annual
Assets				
Earning Assets				
Advances	2,899	2,334	2,799	3,547
Lease	238	247	226	235
Debt Instruments	763	1,336	1,098	1,569
- Total Finances	**3,900**	**3,918**	**4,122**	**5,350**
Govt Securities	13,251	8,623	5,683	3,901
Equity Investments	1,475	1,355	1,051	1,011
Investments in Associates & Subsidiaries	(405)	(405)	(405)	(405)
Mutual Funds	-	-	17	19
- Total Investments	**14,322**	**9,573**	**6,346**	**4,526**
Others	65	349	62	541
Non Earning Assets				
Non Earning Cash	49	67	71	54
Deferred Tax	121	194	206	283
Net Non Performing Finances	268	670	943	833
Fixed Assets & Others	1,565	504	686	533
Total Assets	**20,289**	**15,274**	**12,436**	**12,121**
Liabilities				
Certificates of Investment	1,990	1,737	2,471	2,809
Borrowings	13,212	9,441	6,097	5,616
Interest Bearing Liabilities	**15,201**	**11,178**	**8,568**	**8,425**
Non Interest Bearing Liabilities	**264**	**201**	**281**	**376**
Equity				
Total Equity	4,743	3,874	3,569	3,333
Revaluation Surplus	80	21	18	(13)
TOTAL LIABILITIES & EQUITY	**20,289**	**15,274**	**12,436**	**12,121**
INCOME STATEMENT				
Interest/ markup earned	267	1,386	1,338	1,188
Interest/ markup expensed	(211)	(1,026)	(1,002)	(893)
Net Interest/ markup revenue	**57**	**360**	**335**	**295**
Other Income	35	444	278	188
Total revenue	**92**	**804**	**613**	**483**
Non Interest/ Non Markup expensed	(96)	(379)	(385)	(382)
Pre-provision Profit	(5)	425	228	101
(Provision)/ Reversal	922	47	90	95
Taxes	(48)	(167)	(85)	(14)
Net Income	**869**	**305**	**233**	**182**
Ratio Analysis				
Performance				
ROE	80.7% *	8.2%	6.7%	5.6%
Cost-to-Total Net Revenue	105.3%	47.1%	62.9%	79.1%
Capital Gains/ Total Revenue	11.4%	49.4%	28.9%	24.1%
Capital Adequacy				
Equity / Total Assets	23.4%	25.4%	28.7%	27.5%
Capital Adequacy ratio as per SBP	38.8%	38.4%	39.9%	32.6%
Funding & Liquidity				
Liquid Assets/ Deposits & Borrowings	100.0%	93.4%	83.0%	64.3%
Finances/ Deposits & Borrowings	26.2%	40.9%	56.1%	70.3%
Loan Loss Coverage				
Loan Loss Provisions/ NPLs	95.0%	79.7%	79%	82%
Net Impaired Lending/Total Equity	1.7%	17.0%	19.2%	17.1%

* Annualized

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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	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	**A1+:** The highest capacity for timely repayment.
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.	**A1:.** A strong capacity for timely repayment.
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.	**A2:** A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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 or economic conditions are more likely to impair this capacity.	**A3:** An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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:** The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	**C:** An inadequate capacity to ensure timely repayment.
CCC CC C	**Very high 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.	

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.

Regulatory and Supplementary Disclosure

Name of Rated Entity Pak Libya Holding Company (Private) Limited (PLHC)
Sector JVFI
Type of Relationship Solicited

Purpose of the Rating
Independent Risk Assessment
Regulatory Requirement

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
26-Jun-15	AA-	A1+	Negative	Maintain
26-Jun-14	AA-	A1+	Negative	Maintain
20-May-13	AA-	A1+	Negative	Maintain
30-Jun-12	AA-	A1+	Negative	Maintain
5-Jul-11	AA-	A1+	Stable	Maintain

Related Criteria and Research Joint Venture Financial Institutions - Viewpoint | May-16

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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The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA
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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

Surveillance
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

Reporting of Misconduct
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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PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties
Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

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