RATING REPORT

Security Investment Bank Limited

REPORT DATE:
April 5, 2019

RATING ANALYSTS:
Talha Iqbal
talha.iqbal@vis.com.pk

Ibad Desmukh
ibad.deshmukh@vis.com.pk

RATING DETAILS

	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	BBB+	A-2
Rating Outlook	Stable	
Outlook Date	*April 4 2019*	

COMPANY INFORMATION

Incorporated in 1991	**External auditors:** BDO Ebrahim & Co. Chartered Accountants
Non-Banking Finance Company	**Chairman of the Board:** Haji Jan Muhammad
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Zafar M. Shaikh
Key group of individuals – 59.6%	
Public individuals – 26.6%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria http://www. vis.com.pk/Images/NBFC.pdf

Security Investment Bank Limited

OVERVIEW OF THE INSTITUTION

In 1991, Security Investment Bank Limited (SIBL) was incorporated as a public limited company under the Companies Ordinance, 1984. The shares of SIBL are listed on the Pakistan Stock Exchange (PSX).

RATING RATIONALE

Set up in 1991, Security Investment Bank Limited (SIBL) operates as a Non-Banking Finance Company providing both funded and non-funded facilities and advisory services to clients.

Key rating drivers

Sound profile of sponsors.
The majority shareholders with a stake of ~60% are members of ARY family, which owns and operates the ARY Group (ARY). Founded in 1972 by Late Haji Abdul Razzak Yaqoob, ARY is a diversified group with interests in several sectors including media (ARY Digital, Bol), apparel (ARY Jewelry), retail (ARY Cash & Carry) and real estate. ARY was originally owned by four brothers, Late Haji Abdul Razzak Yaqoob, Haji Mohammad Iqbal, Haji Jan Mohammad and Haji Abdul Rauf.

Adequate internal controls, internal audit and information technology infrastructure.
Existing governance framework of the company is considered satisfactory as indicated by presence of three independent directors on the Board of Directors (BoD) comprising seven members. In line with best practices, the independent directors chair board level committees namely Board Audit Committee (BAC) and Board Human Resources and Remuneration Committee (BHRRC). In accordance with regulator's instruction, SIBL has appointed Head of Internal Audit (IA) in September 2018. Currently, IA department is in process of developing SOPs and the audit plan. In 2018, SIBL upgraded its information system from FoxPro to an in-house Oracle based enterprise resource planning (ERP) solution. The ERP comprises five modules namely general ledger, human resources (HR) payroll, demand finance, system maintenance and car finance. SIBL's operations are supported by adequate disaster recovery and backup systems.

While financing book currently comprises no non-performing exposures, credit risk of performing portfolio is on the higher side. Market risk is considered manageable.
On a timeline basis, financing portfolio has depicted growth of 31%. Credit risk of performing loan portfolio is on the higher side with 3 out of 4 borrowers reporting operating losses and weak capitalization indicators. Lending portfolio is highly dependent on related parties belonging to cable and electric goods sectors. Concentration in financing portfolio stands high with just four clients in the portfolio. Almost the entire portfolio is short-term in nature. Short term loans are secured by hypothecation or charge on assets and liquid shares of counterparty. Going forward, management plans to reduce concentration (repayment plan from existing counterparties has been submitted to SECP and first installment has been received from related parties) in financing portfolio with focus on 1). Vehicle financing (currently SIBL only finances cars, this will be broadened to include bikes) and 2) Consumer financing (home appliances).

While the company reduced short term investments in 2017, the same witnessed increase in 2018 to Rs. 62.7m (2017: Rs. 5.8m; 2016: Rs. 74.7m). The company continues to hold long term investment in Security Capital Investments Limited (SCIL) amounting to Rs. 50.0m. Management plans to completely liquidate SCIL during ongoing year given the challenging operating environment and increased competition in the sector. Short term investments comprise Rs. 25.0m in T-bills and Rs. 31.9m in listed equity shares. As size of the listed equity portfolio in relation to company's own equity remains limited and most fixed income exposures are either short-term in nature and linked to floating rates, market risk emanating from the investment portfolio is considered limited. Over the coming years, SIBL plans to grow the investment portfolio and intends to undertake exposure in government securities (PIBs, T-bills, Sukuk bonds and other government securities) and listed equities.

Leverage indicators stand on the lower side while liquidity profile is comfortable.
In 2018, SIBL obtained subordinated loan from sponsors amounting to Rs. 180.0m at a markup of 6M KIBOR. As a result, total equity of the company increased to Rs. 784.4m (2017: Rs. 582.0m). SIBL is currently a non-deposit investment finance company with minimum equity requirement (MER) of Rs. 100.0m. Total equity stands well above MER. The company has applied for status of deposit taking investment company, MER for which is Rs. 750.0m. Balance sheet is primarily funded through equity. Leverage indicators stand on the lower side with debt leverage and gearing of less than 0.10x as at end-2018. However, with projected growth in liabilities to achieve business growth, leverage indicators may trend upwards going forward.

Given reduction in borrowings along with increase in short term investments, liquid assets in relation to total liabilities increased to 1.92x (2017: 0.41x) at end-2018. Liquid assets are sufficient to cover outstanding liabilities. Bank borrowings reduced to Rs. 2.8m (2017: Rs. 37.4m) at-end'2018 and have remained on the lower side during the outgoing year. Going forward, the company is exploring various options to mobilize funds for envisaged business growth. These include issuance of certificates of deposit, prize bond fund schemes and commercial paper. The management expects to mobilize Rs. 500m in funds each year for the next three years.

With a larger financing portfolio, topline depicted growth while expenses were curtailed. As a result, efficiency ratio depicted improvement.
Revenue base comprises return on financing and placements, profit on bank deposits and capital gains/losses on investments. With higher average markup bearing assets in 2018, net markup income of the bank increased to Rs. 67.4m (2017: Rs. 51.0m). With entire loan portfolio based on fixed rates, impact of rising trend in interest rates on the markup income is expected to be limited. Finance cost increased to Rs. 8.7m on account of additional financial charges incurred on the subordinated loan. On the other hand, administrative expenses were curtailed by 6% in the outgoing year. This is attributed to staff layoffs and cost control measures. Efficiency ratio was reported at 41.7% (2017: 56.3%). The company previously recorded realized gain on re-measurement of PSX shares in 2017 of Rs. 51.6m which was not booked in 2018. As a result, profit after tax decreased to Rs. 22.7m (2017: Rs. 60.7m). Future direction of earnings will be a function of quantum of disbursements and credit quality of the same, and level of administrative expenses.

Security Investment Bank Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR 000's)*

BALANCE SHEET	31-Dec-18	31-Dec-17	31-Dec-16
Long Term Investments	50.0	50.0	50.0
Short Term Investments	62.7	5.8	74.7
Short Term Financing	555.8	414.8	292.1
Cash & Bank Balances	9.5	34.4	8.4
Total Assets	821.8	678.5	623.0
Borrowings	2.8	37.4	-
Deposits	-	7.7	7.7
Net Worth (inc. Subordinated Loan of Rs. 180m)	784.4	582.0	572.8
INCOME STATEMENT	**31-Dec-18**	**31-Dec-17**	**31-Dec-16**
Net Mark-up Income	67.4	51.0	36.0
Non-Markup Income	3.1	1.0	13.7
Operating Expenses	(30.6)	(32.5)	(39.5)
Profit Before Tax	34.0	73.7	11.4
Profit After Tax	22.7	60.7	8.9
RATIO ANALYSIS	**31-Dec-18**	**31-Dec-17**	**31-Dec-16**
Efficiency (%)	41.7%	56.3%	75.8%
ROAA (%)	3.0%	9.3%	
ROAE (%)	3.3%	10.5%	
Gearing (x)	0.004	0.064	-
Debt Leverage (x)	0.05	0.17	0.09
Liquid Assets % Liabilities	192.8%	41.7%	165.5%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES Appendix III

Name of Rated Entity	Security Investment Bank Limited
Sector	Non-Banking Finance Company
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
4-4-2019	BBB+	A-2	Stable	Initial