

Date

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Analyst

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Applicable Criteria

- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jul-23
- Methodology | Financial Institution Rating | Oct-23
- Methodology | Rating Modifiers | Apr-24

Related Research

- Sector Study | DFIs | Jun-23

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PACRA Maintains Entity Ratings of PAIR Investment Company Limited

Rating Type	Entity	
	Current (21-Jun-24)	Previous (23-Jun-23)
Action	Maintain	Maintain
Long Term	AA	AA
Short Term	A1+	A1+
Outlook	Stable	Stable
Rating Watch	-	-

The assigned ratings of PAIR Investment Company Limited (PAIR or the Company) reflect the ownership strength emanating from the Joint venture (J.V) between the Government of Pakistan and the Government of Iran. The prime purpose of the Development Financial Institutions (DFI) is social uplift via the execution of commercially viable projects. The Company's business strategy vests in generating sustainable profitability while growing prudently. The lending portfolio of the Company has shown stable growth over the years and is primarily allocated to diversified sectors including textile, sugar, telecommunication, rice, energy, tyres, financial sector and others. Investment book witnessed a growth of 13% amounting to PKR 16,768mln in CY23 (CY22: 14,813mln). The investment book of the Company is mainly dominated by floaters PIBs (Pakistan Investment Bond) to curb market uncertainty about interest rate movement and maintain average duration at an optimal level. The management team is highly cohesive and well-integrated. The ratings reflect the management's concerted efforts to uphold asset quality and effectively manage the relatively high concentration of advances to financially sound entities. As a philosophy, the Company is unsusceptible to spread transactions, focusing on the core and the sustainable profit streams. The reversal of provisions following the adoption of IFRS 9, coupled with the settlement of a non-performing loan (NPL), has augmented the Company's profitability. The Company gradually liquidated their equity portfolio to benefit from the boom in the stock market. The total asset base grew by ~11% amounting to PKR ~36.4bln during CY23 and PKR 39.0bln in 1QCY24. During 1QCY24, asset quality indicators for PAIR have shown improvement, evidenced by a reduction in infection ratios to 15.3% (CY23: 19%) and an improvement in investment yield. The Company has maintained its CAR (Capital Adequacy ratio) ratio at 36.59% during CY23 supplementing the risk absorption capacity. The liquidity position and capitalization indicators remain stable. Borrowings from financial institutions are their primary source of funding, while the contribution of COIs remains minimal within the funding base. In the DFI industry, limited growth in advances, over the last many years, is evidence of the conservative risk appetite of these institutions. The Central Bank maintained a tight monetary policy stance to combat inflation and curb aggregate demand. Despite these challenges, CY23 was a remarkably successful year for the banking/DFI industry. The market anticipates an inverted yield trend and a recent ~1.5% cut in the policy rate is a reflection of this.

The ratings are dependent on the company's ability to sustain its financial profile while managing the concentration level in funding and advances. Consistent efforts by the management to add new sectors/names to further diversify their portfolio, manage provisioning expense and effect on profitability, and strengthen of equity base remain critical for the ratings.

About the Entity

PAIR Investment Company Limited (PAIR) was incorporated in January 2007. The company is a joint venture between Pakistan and Iran, having equal ownership stake. The Ministry of Finance (MoF) manages the ownership interests of the Government of Pakistan, while the Iran Foreign Investment Company (IFIC) represents the Government of Iran. PAIR's board composition consists of five directors, three directors representing Iran and two directors representing Pakistan. All the management team members carry vast experience from diversified sectors. Mr. Abbas Daneshvar (nominated by IFIC) has taken charge of the office of MD/CEO effective March 01, 2020.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA 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.