



TRUST INVESTMENT BANK LIMITED (TIBL)

RATINGS (MAY 2008)

TRUST INVESTMENT BANK LIMITED

	NEW	PREVIOUS
ENTITY		
Long term	A+	AA-
Short term	A1	A1+

SECURED TFC

TFC I (PKR 250 mln)	AA-	AA
TFC II First Tranche (PKR 375 mln)	AA-	AA
Second Tranche (PKR 375 mln)	AA-	AA
TFC III* (PKR 600 mln)	AA	-

* Proposed

FINANCIAL DATA

PKR (mln)

	30-JUN-07	30-JUN-06
Total Assets	6443.7	6,161.6
Equity	1016.1	974.1
Net Income	103.0	202.1
ROA (%)	1.6	3.9
Debt/Equity	465.9	416.3
Equity/Assets (%)	15.8	15.8

ANALYSTS

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TFC ISSUES

TIBL's first secured TFC was in Dec-03 for a tenor of 5 years, at a profit rate of 2% above the SBP discount rate with a floor of 9% and a ceiling of 14%. The first tranche of the secured TFC-II with shelf registration of PKR 1,000mln was issued in Jan-05, having a tenor of 5 years and a profit rate of 6 months KIBOR+3% with a floor of 6% and a cap of 10%. The second tranche of PKR 375mln of TFC-II was issued in May-06 for a tenor of 5 years at a rate of KIBOR+2% without any floor and cap. All these instruments, with principal repayable in 10 semi-annual installments, are secured by way of first charge on specific leased assets and related receivables with 25% margin. The bank's third TFC of PKR 600 mln has been raised partly (PKR 450 mln) through private placement, while the IPO amount of PKR 150 mln is to be issued after completion of necessary regulatory formalities. The instrument has a tenor of 5 years and a profit rate of 6 months KIBOR plus 1.8% without any floor and cap, but a call option exercisable after 2 years. Principal repayment would be in 8 equal semi-annual installments starting from the 18th month after issuance. The security structure for TFC-III consists of first charge on specific performing leased assets and related receivables with 40% margin. In case of any impairment, the assets under charge would be replaced with performing assets.

RATING RATIONALE & KEY DRIVERS

- The assigned ratings take cognizance of the fact that intensifying competition in the NBFC arena (leasing, investment banking, etc.) has squeezed the profit margins for nearly all industry players. As such, it has become extremely difficult for medium-sized players like TIBL to carve out high-yield niche segments in the market. Although TIBL's new management has taken several initiatives to improve the credit and operational risk management, the results of these in curtailing asset impairment and improving the profitability and the overall risk profile of the bank remain to be seen.
- Meanwhile, risk absorption capacity of the bank has registered considerable decline resulting from asset impairment. Suspension of income and specific provisioning required against the classified portfolio has adversely impacted the earnings. Although returns from the investment portfolio remain strong, their sustainability is dependent on continuing stock market buoyancy.

ASSESSMENT

- Credit expansion remained subdued during the year. Delinquencies remained high largely in the transport and communication sector where the bank was leasing quite aggressively in the past. The sector has seen troubled times during the last few years due to reduction in import duties and hike in fuel prices. TIBL has, therefore, shifted its focus to CNG stations, SME plant & machinery and equipment leasing. Although vehicle financing still dominates the lease portfolio, the concentration has reduced considerably.
- During FY2007, TIBL's income from interest bearing sources remained depressed mainly on account of the increase in asset impairment. Higher mark-up expense further squeezed the bank's net interest revenue resulting lower spreads. The fee, commission and brokerage income improved significantly, but did not have a material impact on the bottom-line as these nascent investment banking activities do not contribute considerably to the bank's revenue stream. Capital gains, dividends and surplus on revaluation of investments bolstered profitability, but significantly higher personnel and administrative expenses curtailed pre-provisioning profit. The bank's income from equity investments remained strong but this source of income remains vulnerable to the volatile and unpredictable nature of the stock market. Higher provisioning against doubtful leases further ate into the profitability reducing the bank's net income to nearly half of last year's level.
- TIBL's profitability for 1H2008 remained low mainly on account of lower income from lease operations and reverse-repurchase transactions. Though dividend income and capital gains booked on the investment portfolio were impressive, deficit on revaluation created a minor dent in the overall returns from investments. Financial charges remained high along with personnel and other expenses, while provision for doubtful leases created a further dent in the profitability. Significant non-recurring other income – mainly from sale of property – gave a shot in the arm to the sagging profitability, which otherwise would have dipped in the red.
- During the year, the bank mobilized long-term funding through issuance of COIs and the Pre-IPO placement of TFC-III, which kept the liquidity comfortable. The bank has also been successful in securing a PKR 500 mln structured finance facility from a Dubai based bank. The leveraging continues to increase, albeit within manageable limits, while capital base remains adequate.
- A number of new initiatives have been taken by the new management to improve the operational efficiency and credit risk management. These include, the development of several operating manuals for the bank's various functions and creation of credit administration and risk management department. These measures are expected to improve the credit evaluation process, operational efficiency and overall risk management function of the bank, going forward.
- The new NBFC Rules impose limitations that prohibit the bank to enter venture capital finance and asset management services, as envisaged earlier. Meanwhile, the brokerage business also has to be separated from core operations. At present, TIBL plans to spin-off the brokerage into an independent subsidiary and its consultants – Arif Habib Limited – are working on the establishment modalities. TIBL also intends to operate as a real estate advisor and financier. One of its main sponsors – Habib Rafique Group – is a well-known name in the real estate and property development business. The bank intends to capitalize on this inherent strength to identify and evaluate real estate projects as well as provide leasing for related construction equipment.

PROFILE

- TIBL, incorporated in July 1992, is listed on all the three stock exchanges. A syndicate of diversified groups – Newage (industrial corporates), FNE (financial services) and Habib Rafique (construction) – owns the majority shareholding (around 80%) in the bank. The seven-member board comprises distinguished entrepreneurs belonging to these groups and professionals with extensive exposure to financial sector. The Chief Executive Officer, Mr. Javaid B. Sheikh, has over 30 years experience of commercial and investment banking.