

ATLAS BANK LIMITED (ATBL)

RATINGS (JUNE 2008)

ATLAS BANK LIMITED

	NEW	PREVIOUS
ENTITY		
Long Term	A-	A-
Short Term	A2	A2

FINANCIAL DATA

PKR (mln)

	31-Dec-07	31-Dec-06
Total Assets	22,984	17,020
Equity	5,260	3,116
Net Income	(309.0)	8.6
Equity / Total Assets %	22.89	18.31
Net NPLs / Equity %	5.60	4.13

ANALYSTS

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect ATBL's well-conceived business plan to gradually establish its presence in a highly competitive banking landscape, by initially focusing on the SME and consumer segments through offering innovative products. Moreover, the ratings acknowledge ATBL's association with Atlas Group – a leading business group in Pakistan - and DEG – a DFI and part of the world's leading banking group (KfW). The association with the later, while further improving the governance standards at the bank, is expected to provide access to a broad knowledge base.
- The ratings are dependent on the bank's ability to effectively implement its business strategy, while putting in place effective risk management systems, thereby enabling the bank to improve its relative positioning in the banking sector. At the same time, stability and cohesiveness of the core management team would be critical. The inability of the bank to overcome its inherent constraints of limited size, outreach, concentration in deposit base, franchise value and revenue streams in a timely manner could have negative implications for ratings.

ASSESSMENT

- ATBL's primary focus is to establish itself as a retail bank with a higher emphasis on SME and consumer segments. The bank plans to gradually build its advances portfolio and has devised a multi phase long-term business plan for strengthening the core lending operations. The strategy envisages reaching a network of 120 branches in 50 cities by end-2013. To date, major proportion of loan book comprises loans to the corporate sector, followed by the SME sector, and to a very small extent, in consumer financing. In phase I (currently in progress), the bank is focusing on program lending in SMEs while consumer financing would be initiated by the end of current year. The management is cognizant of the specialized and capital-intensive nature of these segments and has invested in engaging people with requisite expertise. The bank has based its program-lending SME business on development of right products through a customer-oriented approach. While further developing this side of business, the management plans to focus on the relationship lending in commercial and corporate segments, going forward.
- During 1Q08, the bank's strategy has started yielding benefits and advances portfolio has expanded reflecting rollout of SME financing products. The management has relatively aggressive growth targets, but given the weakening of macroeconomic environment, achieving the good quality credit expansion would be critical. At the same time, the bank faces an uphill task in terms of mobilizing low-cost deposits. Its deposit base, mainly sourced from financial sector, has a relatively high concentration. The management, being cognizant of this constraint, is in the process of formulating a comprehensive retail strategy. In addition to re-launching the bank's brand, the management is designing its branches with a customer centric focus and is also putting a lot of emphasis on providing high quality services to its customers. This while facilitating deposit mobilization efforts would also pave a way for launch of consumer financing.
- As a part of its strategy, ATBL is also focusing on creating synergy with the Atlas Group. The bank is planning to: (a) tap significant potential in the shape of vendors of group's auto companies – cars and motorcycles, (b) cross sell to customers of group companies, and (c) engage asset management and insurance companies of the group for wealth management. However, the potential benefits of this strategy remain constrained by the currently limited branch network of the bank. Moreover, the recent downturn in the auto sector may hamper the planned expansion in this segment.
- Comparatively high cost structure in the gestation phase undermines the bottom-line, though the net interest revenue is improving with expansion in the loan book, as reflected in 1Q08 performance. As the bank continues to further establish and consolidate its platform, the profitability may remain under pressure in the near-term, and improving thereafter.
- Further infection in the bank's legacy portfolio had a negative impact on the bank's asset quality (impaired lending as a percentage of gross advances, end-07: 8%, end-06: 5%). However, this trend has shown reversal in 2008, resulting from better recovery efforts. Moreover, the behavior of newly booked loans has been satisfactory to date, albeit a small period to assess the quality. As ATBL plans to expand its loan book, there would be a higher need for managing the associated risks. Hence, the bank is concentrating on strengthening the risk management systems and processes. In this regard, a Risk Management Department (RMD) has been established to oversee risk management and credit administration. At the same time, comprehensive risk management policies for credit, market and operational risks have been formulated and the Board has approved the same. RMD also follows up on core requirement for implementation of BASEL II. Moreover, considering the bank's network expansion plans and strategy to offer a diverse product range – on both assets and liabilities side – the current core banking software is being replaced by Temenos.
- The recent equity injection from DEG has strengthened the capital structure of ATBL, providing ample cushion for targeted growth.

PROFILE

- Atlas Bank Limited, commencing operations in March 2004, was majority acquired (end-07 holding: 58%) by Atlas Group (AG), through its holding company – Shirazi Investments (Pvt.) Limited (SIL) – and the Shirazi family in December 2005. In July 2006, Atlas Investment Bank Limited, a leading investment bank in the country, was merged with ATBL and subsequently its subsidiary, Atlas Capital Markets (Pvt.) Limited became the wholly owned subsidiary of the bank. AG, established in 1962, has diversified into various industrial and service-oriented businesses including auto, engineering, financial, and trading sectors. ATBL is expected to continue to derive benefits from its association with the AG. In 2007, the bank elicited equity participation of an international DFI, DEG. DEG, one of the largest European development finance institutions for long-term project and company financing is a subsidiary of KfW Bankengruppe (KfW Banking group). KfW, rated AAA by the big three rating agencies is owned 80% by the German federal government.
- ATBL's eight-member board of directors comprises five representatives of AG, including two members of Shirazi family and three from Shirazi Investments, in addition to one each from DEG and NIT and the bank's president, Mr. Aziz Rajkotwala. The board is well experienced, non-executive and possesses the ability to provide strategic guidance to the management. The induction of Mr. Stephan Blanke, Vice President DEG, on the board is expected to contribute positively towards strategy formulation.
- The bank's president, Mr. Aziz Rajkotwala, an MBA, has extensive international and local banking experience of over three decades. Most of the other key members of the management team also having strong professional credentials have been recently hired.