



## TRUST LEASING &amp; INVESTMENT BANK LIMITED (TLIBL)

## RATINGS (MARCH 2007)

## TRUST LEASING AND INVESTMENT BANK LIMITED

	NEW	PREVIOUS
<b>ENTITY</b>		
Long term	AA-	AA-
Short term	A1+	A1+
<b>SECURED TFC</b>		
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 500 mln)	AA	-

\* Proposed

## FINANCIAL DATA

PKR (mln)	30-JUN-06	30-JUN-05
Total Assets	6,161.6	4,116.7
Equity	974.1	806.0
Net Income	202.1	225.3
ROA (%)	3.9	7.2
Debt/Equity	416.3	322.7
Equity/Assets (%)	15.8	19.6

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## TFC ISSUES

TLIBL issued its first secured TFC in Dec-03 for a tenor of 5 years. The instrument carries a profit rate of 2% above the State Bank discount rate with a floor of 9% and a ceiling of 14%. The bank issued the first tranche of its second secured TFC with shelf registration of PKR 1,000mln in Jan-05. The issue has 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 is in the process of issuing its fourth TFCs of PKR 500mln. The instrument would have a tenor of 4 years and a profit rate of 6 months KIBOR plus 2% without any floor and cap, but a call option exercisable after 2 years. Principal would be repaid in 6 equal semi-annual installments commencing from the 18<sup>th</sup> month after issuance. The security structure would be similar to existing instruments.

## ASSESSMENT

- The ratings reflect the bank's strong capital structure supported by an adequate level of profitability. At the same time, the ratings recognize the strategy of the new management to diversify the scope of bank's operations with emphasis on developing fee based revenue streams. The management is working in a structured manner to build the requisite human and infrastructure base. Although these initiatives, having cost implications, would dampen the bank's profitability in the initial phase, these are expected to help the bank sustain the intensifying competitive pressures. Meanwhile, though the bank has experienced higher incidence of impairment in its loan book, the prudent collateralization policy is likely to provide cushion against any material loss.
- After following an aggressive growth strategy for the last few years – around 90% average expansion in the loan book in the previous 3 years – TLIBL shifted its focus towards consolidating its lease book during FY06. Nevertheless, the bank achieved 23% credit expansion during the year, which was comparable to most peers. However, increasing competition limited the bank's ability to increase its leasing rates. Meanwhile, the increased cost of funds took a toll of spreads, though still remaining on the higher side. This is due to sizeable proportion of relatively high yielding SMEs and commercial transport segments in the lease book. The bank also substantially increased its exposure to capital market financing operations – CFS and ready-future spread transaction – that helped in augmenting its interest revenues. Operating expenditure, with the exception of special bonus (PKR 20mln) paid to the bank's ex-advisor, increased largely in line with expanding business volumes and geographical outreach. Moreover, in addition to tax expense as against reversal in the previous year, higher loan provisioning further dampened the bottom line.
- Subsequent to change in the ownership structure of the bank, the new management took control of affairs in the beginning of FY07. It has inculcated a shift in the bank's strategy of aggressive growth in high-risk high-margin leasing business to developing diversified and stable – indeed conservative – revenue streams originating from both fund-based and fee-based avenues. The management is targeting modest growth in the lease book, with focus on achieving a higher degree of diversification in terms of type of assets as well as individual sectors, with maintained focus on SMEs. For this purpose, while remodeling existing branches, it intends to further expand its geographical outreach (Branches end-Feb 07: 16). Additionally, the bank intends to strengthen its treasury operations to capitalize on opportunities in capital and money markets and has also formulated a comprehensive policy for proprietary investment in equities. The management is equally focusing on establishing fee-based revenues and targeted areas include investment banking and equity brokerage services. However, it remains to be seen when these initiatives would help in any material contribution to the bottom line after absorbing the additional associated costs.
- TLIBL's asset quality, measured in terms of NPLs-to-finances, experienced a major dent in FY06 mainly on account of certain exposures relating to the transport sector. However, given the relative ease of repossession and disposal and prudent collateralization, the management, while establishing an independent special assets management department, is confident of speedy recovery and/or settlement against these cases. The management is hopeful of recovering a material portion of the funding and the estimated loss has been largely provided during FY06 and 1HFY07.
- The new management is paying full attention to strengthen the overall risk management framework. The measures include a) improving and implementing procedure/policy manuals for core business segments/operations and strengthening different board and management committees with clear objectives, b) redefining credit approval process with higher degree of delegation, c) establishing credit administration function independent of credit marketing, and d) improving the bank's existing technology infrastructure.
- Despite a continued increase in leverage, the bank's capital structure remains among the strongest in the sector, with ample room for further debt. Given the continuation of adequate profitability and a conservative retention policy, the increased liability associated with higher funding requirements is not likely to have a material impact on the company's capital structure.

## KEY RATING DRIVERS

- These ratings are dependent on the extent of success and related timeline of management's recent initiatives to add diversity to revenues, while operating in a competitive environment. Meanwhile, any material deterioration in the asset quality, in turn, weakening the risk absorption capacity, would have negative implications for the ratings.

## PROFILE

- TLIBL, incorporated in July 1992, is listed on all the three stock exchanges. Subsequent to recent change in ownership structure, the majority shareholding (around 80%) in the bank is owned by a syndicate of diversified groups – Newage (industrial corporates), FNE (financial services) and Habib Rafique (construction). 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.

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