



ATLAS INVESTMENT BANK LIMITED

Ratings (December 2005)

Atlas Investment Bank Limited (AIBL)

Entity	New	Previous
Long-term	A+	A+
Short-term	A1	A1
TFC (secured)		
Second tranche PKR 100 mln	AA-	AA-

Financial Data

PKR (mln)

	30-Jun-05	30-Jun-04
Assets	7114.4	6140.3
Equity	851.5	697.1
Profit after tax	189.5	177.4
ROA [%]	2.86	3.18
ROE [%]	24.48	29.16
Total Debt/Equity [%]	576.30	617.37

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TFC ISSUE:

At present the bank has one secured TFC of PKR 100mln in issue carrying a profit rate of 15% p.a. payable semi-annually. This has an outstanding balance of PKR 33.3 million with the final payment due in August 2006. The issue is secured by a first pari passu charge on leased assets and related receivables with a 30% margin on the principal value. Considering the secured nature of the TFC, it is assigned a rating of 'AA-' (double A minus) but the rating has been placed on rating watch.

Rating Rationale

Assessment

- AIBL's ratings reflect successful execution of management strategy aimed at increasing diversification of earnings while retaining its niche in fund-based operations. The bank's credit risk profile - as reflected in its asset quality - is being largely maintained through effective risk management systems and controls. Meanwhile, the ratings have been placed on a rating watch pending the outcome of the expected merger with Dawood Bank Limited
- While leasing remains a key focus (45% of total assets at end-05), money and capital market, and brokerage operations, are slowly emerging as key revenue drivers. The bank has also demonstrated its ability to generate significant and sustainable capital gains from its proprietary trading activities. As a result of these non-interest based activities, "other operating income" is becoming a larger contributor to total net revenue (FY04: 56%, FY05: 70%). The most important constituent of this is brokerage income, which the management has been able to expand beyond its initial targets. To further build upon this momentum, the management aims to target a larger retail customer base through branch expansion in the province of Punjab. On the qualitative side-and to support this increasing customer base- the bank has set up a research house. It is also investing in upgrading and expanding the human resource base with consequential increase in personnel expenses. Going forward, the bank plans to enhance its fee and commission based income by setting up a corporate advisory function. A team has been put in place, and a nominal contribution is expected by in FY06.
- Despite the increased "other operating income", and volume expansion in terms of the lease and loan portfolio, the bank's performance measured in terms of ROE and ROA registered a YoY decline. The reasons for this were two-fold. Firstly, a one-time increase in the tax incidence due to prior years tax effect. Another factor that is affecting the bank's profitability is declining spreads, which are at the lower end in the sector. The main reason for this is that the bank has a high level of fixed rate assets (50% at end-05) due to the bulk of the lease portfolio being locked in at fixed rates, which precludes upward realignment with interest rate movements. The management is attempting to rectify this anomaly by increasing lease disbursements at floating rates; 50% of lease disbursements in the current year are floating-rate. In the near-term, weighted average spreads are likely to decline further owing to rising cost of funds as well as declining asset yields resulting from leasing at floating rates normally lower than the fixed rates in an increasing interest rate scenario. However, in the long-term, it will allow better spread management. Additionally, the management plans to partially offset the negative impact of declining spreads through volume expansion in the current year.
- The improving trend in asset quality witnessed over the past few years continued into FY05, an outcome of significant recoveries and minimal fresh infection. In a peer setting, its ratio of net impaired lending to equity is among the best. Cognizant of the importance of effective credit risk management, internal controls and systems have been further strengthened, and client and sectoral concentration in the credit portfolio remains modest.
- The bank's investment strategy is guided by the CEO and the investment committee who follow well-defined guidelines - approved by the BOD - in terms of exposure-limits, liquidity and divided yield. This continues to provide risk mitigation. The bank's equity investments at end-05 constituted around 42 % of the bank's equity (FY04:100% or the maximum limit), which has reduced the bank's exposure to market risk.
- The bank's gearing, despite registering a decline for two consecutive years, continues to remain at the higher end in the peer group. Going forward, this is expected to register a modest increase in line with the bank's growth plans. While this has negative connotations for the bank's risk absorption capacity, the bank has demonstrated its ability to effectively manage the risks associated with its various business segments. Additionally the management is following a conservative retention policy to keep gearing within acceptable limits. The bank has adequate liquidity, an outcome of its sizeable investment portfolio dominated by fundamentally strong and REPOable investments.

Support

- AIBL does not have any contractual arrangement for support from the shareholders. However, being an Atlas Group entity, in PACRA's assessment, group support would be forthcoming if it proves necessary.

Background

- AIBL is listed on all three stock exchanges. The Atlas Group continues to be the major stakeholder (around 68%) in AIBL, followed by National Investment Trust (NIT) (13%). Its eight member BoD comprises one nominee of NIT, while the remaining seven represent the Atlas Group. The management team consists of experienced individuals mainly MBAs and Chartered Accountants, and the management's strategy is marked by a clear vision and continuity of policies.
- Atlas Group, established in 1962, has diversified into various industrial and service-oriented businesses including auto, engineering, financial, and trading sectors. The activities of the group are overseen by the Group Executive Committee, which determines the strategic direction of the group, while each company in the group functions autonomously within the overall policy framework.
- The Atlas Group has acquired majority shareholding in Dawood Bank Limited and plans to merge the two entities. Consequently, its rating has been placed on rating watch. The new entity is expected to be better placed within the changing dynamics of a financial sector characterised by increasing competition. This merger is expected to offer several synergies, the most pertinent of which are a reduction in the cost of funds and increased outreach.