



ORIX INVESTMENT BANK PAKISTAN LIMITED

RATINGS (DECEMBER 2006)

ORIX INVESTMENT BANK PAKISTAN LIMITED (OIBPL)

	NEW	PREVIOUS
ENTITY		
Long Term	A+	A+
Short Term	A1	A1

FINANCIAL DATA

PKR (MLN)

	30-JUN-06	30-JUN-05
Total Assets	5,062.3	3,316.9
Equity	788.1	651.5
Net Income	202.6	166.3
ROA %	4.84	5.23
ROE %	28.15	28.51
Debt / Equity %	533.16	403.84

ANALYSTS

Sumaira Fazal
+92 42 5869504
sumaira@pacra.com

Shahzad Saleem
+92 42 5869504
shahzad@pacra.com

RATING RATIONALE

ASSESSMENT

- OIBPL's ratings reflect its sustained performance, mainly an outcome of its success in establishing stable fee-based revenues – corporate finance advisory and brokerage – ahead of most peers. However, given a higher degree of reliance on human resource for sustenance of fee-based businesses, induction of additional professional staff and their retention would remain critical for effective management of expanding business volume. Meanwhile, the bank's asset quality and risk absorption capacity remain strong.
- The management's strategy of diversifying the revenue stream has helped in maintaining robust profitability during FY06 despite intensifying competition. While continuing with its money market operations, the bank participated aggressively in the low-risk high-yield capital market operations in the form of CFS financing and ready-future market transactions. Higher spreads from these sources offset the downward pressure on loan-based spreads, thereby augmenting the bank's net interest revenue substantially. Meanwhile, income from non-fund based activities substantially contributed towards the bottom line, the major contribution flowing from brokerage operations followed by advisory services. While the bank's operating expenditure, in particular personnel cost, has kept on increasing, the corresponding increase in revenues has resulted in a maintained cost-to-revenue ratio. During 1Q07, income from fund-based and non-fund based sources maintained its growth trend. However, the overall performance was weighed down by significant increase in operating cost on account of higher staffing cost and expansion of the brokerage division.
- Going forward, the management plans to continue relying more on fee-based avenues and targets a moderate growth in the loan book. With reference to advisory services, the bank with an established track record enjoys a distinct edge over its peers. The bank by focusing on mainly second-tier corporate clients for providing corporate finance advisory has carved a niche for itself. This strategy appears to be working well, as reflected by a sizable number of advisory assignments in hand. The bank is also exploring new avenues for these services, including infrastructure projects. In terms of brokerage operations, the bank to further expand its client base has recently acquired membership of Lahore Stock Exchange, in addition to existing membership of KSE. However, the bank has yet to develop requisite controls and risk management systems to effectively manage risks associated with the brokerage business, which has expanded fast. In the intervening time, the bank would remain exposed to a higher degree of risk, as was demonstrated recently while managing transactions originating from a group of clients linked to single scrip. The management also seeks further diversification in operations, with opening of Islamic finance window and establishing an asset management company.
- The bank's funding base, comprising certificates of deposit and bank borrowings, is mainly sourced from financial institutions. The deposit base is spread over a sizeable number of depositors, with a mix of financial sector entities, corporates and individuals. Moreover, increasing participation in money market has provided OIBPL another avenue to mobilize short-term funds.
- OIBPL has enhanced the limit for proprietary trading in equities to PKR 200mln, thereby increasing exposure to market risk. However, it still represents a moderate proportion of the total equity – around 25%. Owing to its investments in long-term PIBs, the bank is exposed to interest rate risk. Nevertheless, the bank is effectively utilizing this portfolio for its money market operations, thereby increasing the effective return. The bank's Asset & Liability Management Committee monitors the bank's exposure to interest rate risk on regular basis. Meanwhile, the bank's asset quality remains strong, with further improvement on account of increased provision coverage with limited incidence of fresh infection.
- Despite increased gearing due to higher growth in assets, the bank's overall capital structure is strong. Meanwhile, the bank also remains well placed in terms of equity to asset ratio in the peer setting.

SUPPORT

- While there is no contractual obligation on the part of ORIX Corporation Japan (OCJ) to support OIBPL in event of contingency, in PACRA's opinion, such support is likely to be forthcoming, should it prove necessary.

BACKGROUND

- ORIX Investment Bank Pakistan Limited (OIBPL) was incorporated in July 1995 and commenced operations in the subsequent year. Listed on both Karachi and Lahore Stock Exchanges, OIBPL was sponsored by OCJ and ORIX Leasing Pakistan Limited (OLP). OCJ is the single largest shareholder (30%) of OIBPL, followed by OLP (15%). Other shareholders include local and foreign financial institutions and individuals. The bank's business activities include short-term lending, fund placements, treasury operations, money market brokerage, equity broking and financial and advisory services.
- The Board of Directors (BoD) comprises seven members including the CEO. Three directors are nominees of OCJ, two of OLP, while SaudiPak Industrial & Investment Company and Pak-Kuwait Investment Company has appointed one nominee each. The CEO – Mr. Naim Farooqui – has experience of more than 21 years in development and investment banking.

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