



**Rating Action**

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**PACRA DOWNGRADES RATINGS OF ESCORTS INVESTMENT BANK LIMITED**

The Pakistan Credit Rating Agency Limited (PACRA) has downgraded the long term and short term ratings of Escorts Investment Bank Limited (EIBL) to BBB- and A3 respectively [Previous: Long term: A-; Short term: A2]. Moreover, a '*Negative Outlook*' has been assigned to these ratings. This is the lowest investment grade category.

The ongoing losses, though of late the quantum is reducing, continue to keep Escorts Bank's equity under stress, which is now also short of minimum regulatory capital. The bank focused to explore non-fund based avenues to cope with weakened net revenue. However, the desired benefits are yet to fully materialize. The bank has been successful in managing its operating cost that has provided some breathing space to the bottom-line, reflected in near operational break-even in the recent months.

The ratings have been downgraded subsequent to delay in principal repayment of fifth installment of PKR ~83mln due on September 15, 2011 on the TFC issued by the bank in March 2007. The due amount is relatively small (~5%) compared to total financial obligations of the bank. While the bank is experiencing liquidity constraints, the sponsors, despite their stated intentions, have not injected fresh funds. Moreover, delay in conversion of certain non-earning assets - mainly tax refunds - into cash further strained the financial position.

The management is currently pursuing the investors of TFC to reschedule the remaining installments. The management is hopeful of achieving an amicable arrangement shortly. PACRA is monitoring the developments and would take necessary rating action, particularly if unnecessary delay is experienced in rescheduling or this starts engulfing other funding sources of the bank.

**The bank:** EIBL, incorporated in 1996, is listed on the Karachi and Lahore Stock Exchange and is majority owned (71%) by Bashir Family, directly by individuals and through a group company - ESSEM Power (Pvt.) Limited. Ms. Shazia Bashir is holding the office of CEO since April 2010. She has over fourteen years of professional experience in EIBL and is supported by a mix of relatively young and experienced team of professionals.

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