



Rating Action

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CREDIT PROFILES DETERIORATE, OUTLOOK NEGATIVE FOR THE INVESTMENT BANKING INDUSTRY

The Pakistan Credit Rating Agency Limited (PACRA) believes that the investment banking industry in Pakistan is undergoing a challenging phase, and most entities in the industry have lately experienced significant deterioration in credit profiles and access to funds. PACRA, while taking entity specific downward rating actions, where necessary, sees negative outlook for the industry.

Besides considering prospects of various investment banks on stand-alone basis, the agency has given due consideration to the macro economic challenges being faced by the entire economy that manifest into a difficult operating environment for the industry. Meanwhile, access to economical sources of funding would remain a cause of concern particularly over the short-term. Moreover, managing the asset quality and finding business growth avenues would be major challenges. The regulatory support to industry has remained passive. Moreover, given that most entities in the industry are not part of any big group, the financial support from sponsors is expected to remain limited. Nevertheless, the current dynamics are likely to speed up the consolidation within the industry.

RATING ACTION

Entity	Long-Term Rating		Instrument Rating		Outlook	
	New	Previous	New	Previous		
IGI Investment Bank Ltd.	A	A	A+ PKR 500mln	A+	Negative	
Orix Investment Bank Ltd.	A-	A-			Rating Watch	
Trust Investment Bank Ltd.	A-	A+	TFC-II First Tranche PKR 375mln	A	AA-	Negative
			TFC-II Second Tranche PKR 375mln	A	AA-	
			TFC-III PKR 600mln	A	AA	
First Dawood Investment Bank Ltd.	A-	A+	A PKR 345mln	AA-	Negative	

RATING RATIONALE AND KEY DRIVERS

1. IGI INVESTMENT BANK LIMITED (IGI IBL)

The ratings of IGI IBL (Long term: A, Short term: A1) reflect its strong relative positioning in the investment banking industry emanating from the resilience demonstrated by the bank in the current liquidity crisis. The ratings also recognize the bank’s strong risk absorption capacity supported by its good asset quality, sound equity base, and quality risk management systems. Though the performance of the bank is expected to remain subdued

over the short to medium term, the management is making efforts to overcome the increasing business risk mainly by focusing on the bank's diversified product portfolio. However, the extent of its success is yet to be seen. Meanwhile, the ratings would continue to draw comfort from the bank's association with one of the prestigious business groups in the country – Packages group.

The ratings are assigned a negative outlook recognizing the uncertain prospects of the overall investment banking sector. The bank's ability to materialize its business plans in a timely manner while sustaining profitability and maintaining its asset quality would remain critical. Moreover, given that the bank has significant exposure in CFS, any material loss in these funds and/or prolonged liquidity stuck up would put downward pressure on the ratings.

2. ORIX INVESTMENT BANK PAKISTAN LIMITED (OIBPL)

ORIX Investment bank's ratings (Long term: A-, Short term: A2) reflect its strong ownership structure – majority owned by ORIX Corporation Japan – and the demonstrated ability of sponsors to provide support in distressed situation. However, the bank has suffered significant losses arising from brokerage operations and investment portfolio that while eroding the company's equity have seriously hampered its risk absorption capacity. Moreover, deteriorating quality of the loan book and weakening performance indicators have further dampened the bank's prospects. Cognizant of these developments, the management is exploring various options to either revive the bank's operations or merge it with another entity.

However, considering the uncertainty surrounding the eventual outcome of these initiatives, PACRA has placed the entity ratings of the bank on Rating Watch.

3. TRUST INVESTMENT BANK LIMITED (TIBL)

The ratings of TIBL (Long term: A-, Short term: A2) reflect increasing pressure on its financial profile emanating from its relatively heavy reliance on costly short-term sources of funds, which, in turn, signifies higher liquidity and cash flow risks for the bank. Moreover, growth in fresh disbursements has recently been slowed down on account of limited availability of required funding, wherein the management is facing difficulties even in continuity of existing short-term facilities, particularly the money market lines. In addition to TIBL's own troubles, the prevailing market conditions may further strain its profitability, going forward.

The management, cognizant of all the problems, is in the process of devising a workable strategy to deal with these challenges, while exploring various options, including raising new equity. The ratings have negative outlook and PACRA sees timely materialization of the efforts crucial to avoid further downward pressure on the ratings of the bank.

4. FIRST DAWOOD INVESTMENT BANK LIMITED (FDIB)

The ratings of FDIB (Long term: A-, Short term: A2) reflect deteriorating financial profile of the bank, an outcome of high leverage and greater



reliance on short-term borrowings. In the prevailing tightened money market and an overall cautious stance by most lenders, coupled with high interest rates, the bank's financial risk has increased significantly. The liquidity risk is further exacerbated as a portion of company's investment portfolio has become illiquid in the current scenario. Meanwhile, the risk of further deterioration in asset quality, arising from both funded and non-funded exposures, has increased. Also the performance, including the risk absorption capacity, has been impacted by continuing pressure on spreads in financing operations, loan impairment losses and revaluation losses from high exposure in equity market. Nevertheless, management of the bank, cognizant of the challenges faced by the bank, is exploring various options to revive the bank's operations, the major being the injection of fresh equity into the bank. The ratings carry negative outlook. Failure to achieve tangible progress on these plans in the near term could result in further downward adjustment in the ratings.

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