

Rating Action

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PACRA REVIEWS THE RATINGS OF KASB BANK LIMITED

PACRA has downgraded the long-term and short-term entity ratings of KASB Bank to “A-” (Single A Minus) [Previous: A] and “A2” (A Two) [Previous: A1] respectively. These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments. The rating of the proposed TFC of PKR 1,000mln to be issued by the bank has also been downgraded to “BBB+” [Previous: A-]. The rating denotes an adequate capacity of timely payment of financial commitments.

The ratings of the bank reflect substantially weakened risk absorption capacity – a consequence of significant business losses and deterioration in asset quality. Moreover, high level of non earning assets, mainly NPLs and strategic equity investments, reflect subdued performance prospects. Cognizant of this, the management is in the process of bringing fresh capital through issuance of right shares. The restructuring of group investments is also expected to be finalized over the near term. However, timely execution of the management’s initiatives seems challenging. Nevertheless, the ratings draw comfort from the vigilance and pro-activeness of the apex regulator – SBP.

The outlook on the ratings remains negative and is dependent upon ability of the bank to revive its risk absorption capacity and bring it to an adequate level, while meeting regulatory capital requirements. At the same time, success in building up the bank’s franchise and returning to profitable core operations would be critical.

The bank: KASB Bank Limited, incorporated in October 1994 and listed on all three stock exchanges, was acquired by KASB group in October 2002. The KASB Group, established by Khadim Ali Shah Bukhari in 1958, has a sizeable portfolio of investments in financial sector. However, the financial profile of most of group companies came under stress in recent periods due to difficult market conditions.

Mr. Nasir Ali Shah Bukhari, the chairman of the board, has an experience of around three decades in financial markets. Lately, the group has signed an agreement with Asia International Finance, a china based group for an initial investment of US\$40mln in KASB group, of which major portion would flow into KASB Bank. The transaction, on timely completion is expected to help revive the bank’s financial profile.

The chief executive, Mr. Muneer Kamal is an experienced banker with a distinguished profile. He is assisted by a core team of experienced professionals, which has been recently fortified by induction of Mr. Masood Karim Shaikh, a seasoned banker, as COO. The bank is operating with a branch network of 100.

Proposed TFC: The bank plans to issue unsecured and subordinated TFCs of PKR 1,000mln for a period of 5.5 years. The TFC is expected to be issued after completion of right issue. The TFC holders would be exposed to relatively higher risk due to subordinate nature of the instrument.

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