



Rating Action

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PACRA Revises Ratings of KASB Securities Limited

The Pakistan Credit Rating Agency (PACRA) has revised the long-term and short-term entity ratings of KASB Securities Limited (KSL) to "A-" (A Minus) and "A2" (A Two) respectively [Previous: A/A1]. The rating of the secured and privately placed TFC issue of PKR 500mln has also been revised to "A" (Single A) [Previous: A+]. These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings reflect KSL's strong position in the equity broking business emanating from its healthy market share and established brand. This is supplemented by a strong research function and advanced technology infrastructure that draws support from the company's association with Bank of America Merrill Lynch (BAML). However, the overall depressed broking volumes have squeezed the respective business available to KSL, in turn, negative operating margins. The proprietary trading activities, though actively monitored, expose the company to market risk. Furthermore, non-earning assets (significant compared to the company's equity), besides putting pressure on the earning capability, have constrained the liquidity profile of the company. The management, cognizant of the situation, is exerting efforts to convert these non-earning assets, via divestment, into earning resources.

The negative outlook highlights the continuous pressure on core profitability of the company which could result in further weakening of its business profile. The difficult business environment magnifies the challenge.

About The Company: KSL, listed on KSE since Aug08, is a majority owned subsidiary (77%) of KASB Bank Limited. Lately, a China-based group, Asia International Finance (AIF), has joined the KASB Group. It has injected US\$40mln in KASB Finance, the group's holding company, now equally owned by the KASB Family and AIF. KASB Finance has injected PKR 3,000mln in KASB Bank, now 82% owned by KASB Finance. However, the overall financial profile of KSL's parent - KASB Bank Limited - remains weak. KSL operates through six branches in six cities, Karachi, Lahore, Islamabad, Rahim Yar Khan, Gujranwala and Multan.

About the TFC Issue: KSL has issued a secured TFC of PKR 500mln in June 2007, carrying profit at the rate of 6-month KIBOR plus 190bps, payable semi-annually, with no floor and cap. The instrument is secured by way of first ranking pari passu charge on all present and future current assets as well as first ranking charge on present and future fixed asset, with 25% margin. The TFC is due for full redemption on June 27, 2012 and only the final installment of PKR 179mln is outstanding.

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