



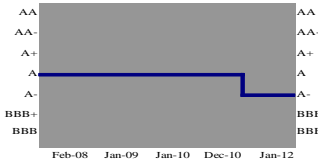
RATINGS (FEBRUARY 2012)

IGI INVESTMENT BANK LIMITED (IGI IBL)

	NEW	PREVIOUS
Entity		
Long-Term	A-	A
Short-Term	A2	A1
TFC-Secured, Listed		
PKR 500mln*	-	A+

*Redeemed

Long-Term Rating History



FINANCIAL DATA (PKR mln)

	Sep-11*	FY11	FY10
Total Assets	7,801	8,721	8,261
Equity	1,444	1,473	1,670
Net Loss	(29)	(169)	(199)
Debt/Equity %	409	457	358

*Based on unaudited accounts for 1QFY12

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PROFILE

IGI IBL, incorporated in 1990, is majority owned (end-FY11: 49%) by Packages group, directly by individuals and through different group companies mainly IGI Insurance Limited (43%). The bank, listed on Karachi, Lahore and Islamabad Stock Exchanges, has offices in five cities with the head office in Karachi. All group companies in the financial segment – Insurance, investment finance services, brokerage, and asset management – are branded together as “IGI Financial Services” (IGI FS).

The bank’s BOD comprises seven members, including the Chief Executive Officer. Syed Babar Ali is the chairman of the board. The board is diverse in terms of their experience in financial and non financial markets. Recently, Mr. Tariq Hasan Quraishi has been appointed as CEO of the bank. He has been associated with the group for past 14 years and carries around four decades of financial market experience both locally and abroad. Given the subdued economic conditions prevailing in the NBFC sector, stability and cohesiveness of key management is critical.

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings of IGI IBL reflect its relatively stressed financial profile. This is due to sizeable quantum of non-earning assets - non-performing finances, investment in subsidiaries, and deferred tax - that has led to nominal revenues, while putting pressure on liquidity parameters. Thus the bank, while consolidating its existing fund-based operations, has shifted its focus to explore fee based avenues, mainly corporate finance and advisory, to cope with challenging market conditions. However, extent and timely materialization of the desired targets remains to be seen. Nevertheless, the ratings draw material comfort from IGI Bank's association with an established business group - Packages.
- The ratings are dependent on bank’s ability to reverse continuing business losses as these are gradually eating into the bank's risk absorption capacity. Meanwhile, IGI IBL's commitment to improve organizational structure along with further strengthening the risk management and control environment is critical.

ASSESSMENT

- Historically, IGI IBL’s asset mix was dominated by financing activities. However, subsequent to financial crises, while experiencing sizeable infection in finances portfolio, the bank gradually shifted its focus towards low risk treasury and money market operations. The bank remained cautious towards fresh disbursements. The same is reflected in declining proportion of finances (including direct investments in debt securities) in earning assets of the bank (FY11:~30%, FY10: 45% FY09: 49%). However, this change towards low-spread capital market activities has squeezed already depressed net interest revenue, further plagued by the drag of non-performing debt instruments and finances.
- IGI IBL witnessed negative net interest revenue (FY11: (109)mln, FY10: 15mln, FY09: 43mln). Consequently, despite healthy income from trading in securities, the bank’s total net revenues plunged significantly. Since the bank made sizable provision against non-performing finances and investment diminution in FY10, the drag on this account was limited in FY11. Nevertheless, the loss for the year was significant. During 1QFY12, the management could not arrest declining net revenue, which was less than 20% of the preceding full year. However, the bank has managed to cut its certain corners, benefiting in the form of lower operating cost. The bottom line was still in the red.
- The investment portfolio of IGI IBL as a percentage of total assets increased significantly (1QFY12: 50%, FY11: 58%, FY10: 36%). The bank’s non-strategic investment book is dominated by government securities followed by stocks and investments in mutual funds. While most of the government securities are under short duration spread transaction, related interest rate risk is low. The bank carries market risk on its tradable equity investments.
- The bank holds two strategic investments, i) IGI Funds Limited (IGIFL), and ii) IGI Finex Securities Limited (IFSL). The performance of IGIFL has lately improved. The company has shown improvement in profits supported by increase in assets under management. However, IFSL remained in losses. In current challenging business conditions for brokerage industry, the performance of IFSL is expected to remain stressed at least over the short-term. Therefore, any material support from the bank’s strategic portfolio is not likely in the near future. Moreover, the past losses have significantly eroded equity of investee companies and is now less than half of the carrying value.
- Going forward, IGI IBL intends to continue to focus on non-fund avenues besides treasury operations. To enhance non-fund based income, the bank will concentrate on corporate finance and advisory services. IGI IBL would maintain sizeable portfolio of debt securities. This is expected to provide a stable revenue stream, given the quality of the book remained at adequate level. Nevertheless, income from capital market operations would continue to dominate its revenues. Given changing operational structure of the bank, the oversight and pro-active supervision of the related risks would require management's critical attention. Meanwhile, conversion of non-earning assets in earning resources would remain important to improve the bottom-line performance.
- IGI IBL has a sizable drag of non-performing loans, leases, and debt securities. The unprovided bad book (loans & finances: PKR 240mln; TFCs: PKR 206mln) has a potential impact of ~ PKR 446mln (~ one-third of bank equity at end June-11).
- Lately, though the bank’s reported liquid assets increased significantly these were mainly locked under spread arrangements. Nevertheless, the net liquid assets available against clean borrowings/COIs remain adequate (~65% at end-Sep11). The bank draws comfort from available funding lines and support from sponsors besides utilizing liquidity lying on its own balance sheet.
- The funding structure remains a combination of COIs and borrowings from Financial Institutions with shift in favor of bank borrowings (1QFY12: 49%, FY11: 54%, FY10: 33%). The deposit base is concentrated with top 20 contributing around 68% to total deposit base at end Sep-11 (end Jun-10: 75%). However, comfort can be drawn that a sizable portion emanates from related parties.
- IGI IBL maintains a low leveraged capital structure (Total Debt / Equity at end 1QFY12: 4.1x; FY11: 4.6x; FY11: 3.6x), due to still sizeable reported equity base. Business losses in recent years have eroded a major portion of the equity, thus weakened the risk absorption capacity of the bank.