



KSE100 Closing 9,993.4 (-56.64 points)

May21, 2010

Pakistan Research

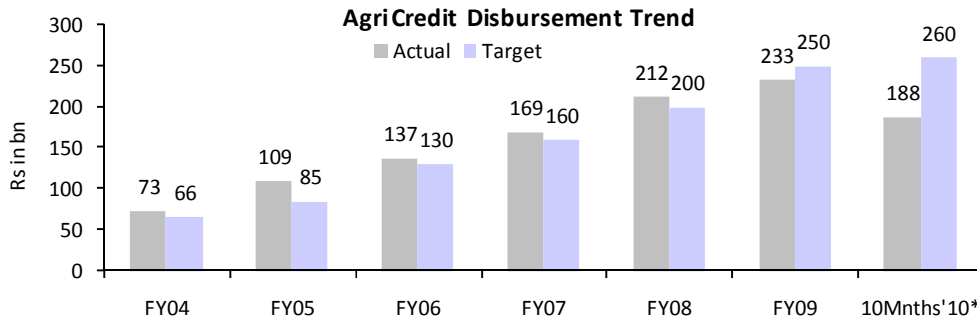
Economy, Banks | Market

Agri-credit disbursements: Takeaways for the market

Agri – credit demonstrating growth in 10Mnths'10

According to the latest data provided by State Bank of Pakistan (SBP), the overall credit disbursement to the agriculture sector by the banks, has reached over Rs188bn in the ongoing 10Mnths'10. The credit disbursement to the agricultural sector by the commercial and specialized bank has been rising and it grew by 5-year CAGR of 12% to Rs188b.

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Market Cap Rs 2815 bn

Market Cap USD 33.3 bn

KSE Vol. 66.31 mn

The target set by the SBP for FY10 is Rs260bn, where 72% of the total target has been achieved in first ten months of the current fiscal. The disbursement of credit to the agriculture sector increased by over Rs13.24bn during July-April'10 when compared with total disbursement of Rs174.77bn in the same period last year. Overall credit disbursement by five major commercial banks including (ABL, HBL, MCB, NBP, and UBL) has reached at Rs95.96bn in July-April'10 compared with Rs86.55bn in the same period last year depicting an increase of Rs9.40bn or 11%.

Zarai Taraqati Bank Limited (ZTBL), which the largest specialized bank, disbursed Rs56.19bn during the said period as compared with the last year's disbursement of Rs52.05bn, up by 7% in comparison with the corresponding period. On the other hand, Punjab Provincial Co-operative Bank Limited (PPCBL), disbursed Rs3.61bn during July-April'10, almost disbursed the same amount disbursed last year.

Apart from 5 big banks and specialized banks, the other 14 private banks also provided a combined Rs32.27bn in July-April'10 compared with Rs32.11bn in the corresponding period. It may be recalled that the SBP has set an indicative agricultural credit disbursement target of Rs260bn for FY10. Banks disbursed a total of Rs233.01 billion to the agricultural sector in FY09.

Banks	Total disbursement (Rs.bn)		Change (Rs.bn)	Chg (%)	Credit disbursement as %of target
	10Mnths'10	10Mnths'09			
5 Big banks	95.96	86.55	9.41	11%	37%
ZTBL	56.19	52.51	3.69	7%	22%
PPCBL	3.61	3.61	(0.00)	0%	1%
Others	32.27	32.11	0.15	0%	12%
Total	188.03	174.78	13.25	8%	72%

Source: SBP, Standard Capital Research

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We believe FY10 target may not be met due to commercial bank's incremental net performing loans. However, the President of country's largest commercial bank i.e. National Bank of Pakistan (NBP) has expressed his desire to seek more agriculture exposure wherein he sees this are to be of high potential and mainly untapped.

Millat Tractors (MTL) became one major beneficiary...

During the period of Jul-April'10, Millat Tractors (MTL) set a new record of highest ever sales by any company in the history of Pakistan by selling over 32,740 tractors and is all set to deliver a record 40,000 tractors by the year ending June '10, improving upon its previous year's sales record of 30,677 by 30%. Upsurge in the agriculture credit is correlated with the tractors sales.

Being agricultural based country; Pakistan has a lot of potential and opportunity is there to capture the market. With the increase in the agriculture credit in coming years, will defiantly help not only the tractors manufacturer, but also the fertilizer companies as well.

Relatively lower prices of fertilizer and impact of higher farm income in FY09 encouraged farmers to use fertilizers aggressively. Fertilizer off-take also increased due to government support and increased farm credit in terms of maintaining a higher support price for FY10 wheat, despite a substantial decline in international prices of the grain.

Specialized banks needed a push...

We have witnessed 8% growth in agri-credit during the said period. The share of 5 large commercial banks is gradually increasing, improving their leading position in the market on the back of extensive branch network but this growth should be a double digit growth in our concerted opinion. ZTBL and PPCBL have not shown any growth in the disbursement during the said period. Specialized banks must push themselves and government should also play a vital role in promoting farm credit by these banks. Currently ZTBL concentrated on medium to long-term developmental loans. A sharp jump of 61.9 percent in developmental loans by the ZTBL was probably due to financing of Benazir Tractor Scheme.

The main factors affecting the pace of growth in agri-credit are:

- (a) *Decline in both overall area under cultivation and number of borrowers;*
- (b) *Rising NPLs in agri-credit, particularly for DFIs and five large commercial banks (CBs)*
- (c) *Improvement in farm income on the back of bumper crops and better prices of most of the agri-produce in FY09.*

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