Pak-Gulf Leasing Company Limited

Chairman: Mr. Sohail Inam Ellahi   CEO: Mr. Mahfuz ur Rehman Pasha

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Analysts: Maimoon Rasheed
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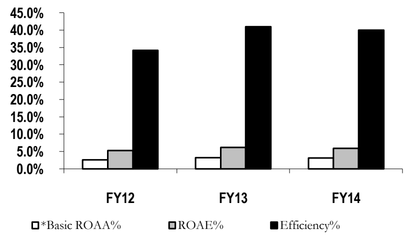
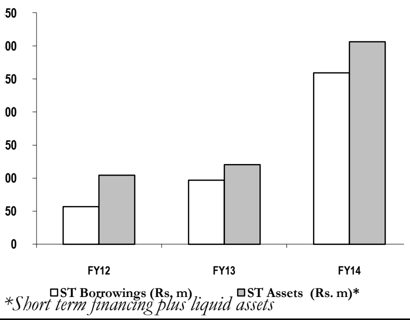
Category	Latest	Previous
Entity	A-/A-2	BBB+/A-3
	Sep 25, '14	*April 8, '13*
Outlook	***Stable***	***Stable***
	Sep 25, '14	*April 8, '13*

Key Financial Trends





**Short term financing plus liquid assets*

	FY12	FY13	FY14
Total Assets (Rs. in m)	582	683	901
Net Leases (Rs.in m)	451	565	744
Profit / (Loss) (Rs.in m)	23	27	29
Net Infection (%)	6.5%	0.3%	0.0%
Equity *(Rs. in m)	390	420	452
Liquid Assets % Deposits & Borrowings	83%	24%	16%

**Excluding surplus on revaluation of operating fixed assets.*

Note: Assets & liabilities, where applicable, are net of lease key money

Rating Rationale

Pak Gulf Leasing Company Limited (PGL) is owned by a number of individuals and entities with major shareholding held in the names of Directors/Executives and related parties. Some of the institutional investors include Mid-East Agencies (MEA) and Unibro Industries (UI) - associated companies of the major sponsors- in addition to The Bank of Punjab (BoP) and Kraftex Limited (KL). Total equity (net of revaluation surplus on operating fixed assets) of the Company has shown improvement on account of internal capital generation. Current capitalization levels are short of the Minimum Equity Requirement (MER) of Rs. 700m stipulated for end-June, 2013 as laid down in NBFC Regulations 2008. Various reforms are under discussion at the regulatory level to revive the NBFCs sector including extension in timeline for meeting the MER up till 30th June, 2018. Gazette Notification from the regulator to that effect is still awaited.

PGL's leasing portfolio has exhibited consistent growth over the past three years. The Company made disbursements of Rs. 480.7m (FY13: Rs. 378.5m; FY12: Rs. 222.6m) during FY14. By end-FY14, PGL's cumulative lease portfolio had grown to Rs. 744m (FY13: Rs. 565m). Besides continuing with additions to its conventional leases portfolio, the Company also initiated writing of Ijarah (Shariah-compliant Leases) contracts from FY13, which is intended to allowing it an access to the niche market, presently dominated by Modarabas & Islamic banks. Client concentration in the portfolio remains high. The management, however, based on past experience, considers this selective disbursement to serve as a prudent approach towards preventing credit losses which may arise from financing unknown or new clients. Consequently, reliance on few strong clients with an established debt servicing capability has been preferred. The Company made impressive recovery efforts in FY13-FY14 resulting in the overall classified portfolio declining from Rs. 27.2m in FY12; to Rs. 2.6m in FY13 and further to Rs. 0.9m at end FY14. As a result of the aforesaid recoveries, the Company's gross infection receded to 3.5% by end-FY14 (FY13: 4.8%; FY12: 12.9%). Given prudent provisioning coverage, net infection improved to 0.02% at end-FY14

By end-FY13, the Company fully retired its 2-year term financing facility. During the same financial year, PGL altered its borrowing policy by availing short-term running finance facilities. The first R/F limit of Rs. 50m was obtained in FY13, which was later on enhanced to Rs.100m in FY14. The Company's major sponsors' commitment to providing liquidity to PGL, besides the tax-adjusted low cost of CoI funding, has encouraged them to substantially invest in these instruments, particularly in FY14. As at end-FY14, overall COIs amounted to Rs. 137.1m; (FY13: Rs. 59.8m; FY12: Rs. 32.0m). PGL's leverage and gearing indicators are on the lower side in comparison to peers. The Company's liquid assets at end-FY14 stood at Rs. 42.7m (FY13: Rs.23.2m; FY12: Rs. 47.5m). In relation to overall borrowings, liquid asset coverage for FY14 was at 16%. These liquid assets as at end-FY14 comprise cash & bank placements (44%), sovereign instrument holdings (49%) and stock fund units (7%). Given the relatively smaller size of PGL's investment portfolio, the associated interest rate risk is considered manageable. As at end-FY14, the Company's current ratio was at a comfortable level of 1.30x.

In line with the declining interest rate scenario witnessed in FY13, the Company's return on the leasing portfolio decreased by about 100 bps. In FY14, return on leasing operations fell further by 80 bps despite some increase in average interest rates during this period. This was primarily due to an attempt by the Company for staying abreast with the competition being faced from the commercial banks having the capacity to lend at lower rates than the leasing companies. Entrance in the Ijarah market has allowed the Company to tap into a different set of clientele, thereby increasing its growth avenues. Cost of funding for the company has come down as returns on all outstanding COIs at end of FY14 stood at 11% p.a., or lower. PGL's administrative overheads witnessed a slight increase on account of higher employee related costs. Given the fluctuating interest rate scenario, the consistent growth of leasing portfolio has only translated into marginal increase in profit before tax for FY14 at Rs. 47.7m, vis-à-vis Rs. 46.70m for FY13.

Management team of the Company is spearheaded by Mr. Mahfuz ur Rehman Pasha, the CEO of the Company. During FY14, turnover was witnessed in the CFO position, the outgoing CFO being replaced by Ms. Mehreen Usama: a qualified Chartered Accountant, possessing a post-qualification professional experience of four years.

Overview of the Institution

Pak-Gulf Leasing Company Limited was incorporated in 1994 and commenced operations from September 16, 1996. The Company is principally engaged in the business of leasing and is listed on all the three (03) stock exchanges of Pakistan. Financial statements for 2014 have been audited by M/s KPMG Taseer Hadi & Co. Chartered Accountants JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: ENTITY		
9/25/2014	A-	Stable	A-2	Upgrade
4/8/2013	BBB+	Stable	A-3	Reaffirmed
7/29/2011	BBB+	Stable	A-3	Upgrade
3/18/2010	BBB	Positive	A-3	Upgrade