RATING REPORT

Pak Gulf Leasing Company Limited (PGLC)

REPORT DATE:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*Nov 27, '15*		*Sep 25, '14*	

COMPANY INFORMATION

Incorporated in 1994	**External Auditors:** M/s BDO Ebrahim & Company – Chartered Accountants
Public Listed Company	**Chairman of the Board**: Mr. Sohail Inam Ellahi
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Mahfuz ur Rehman Pasha
Kraftex Limited -------------------- 16.7%	
Mr. Pervez Inam ------------------- 15.6%	
Mr. Sohail Inam Ellahi -------------09.7%	
Unibro Industries –---------------- 05.9%	
Mr. Fawad S. Malik----------------- 05.3%	
Mid-East Agencies (Pvt.) Ltd. ----05.1%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Non-Bank Financial Companies ***http://jcrvis.com.pk/Images/NBFC.pdf***

Pak Gulf Leasing Company Limited (PGLC)

OVERVIEW OF THE INSTITUTION

PGLC was incorporated in 1994 and is listed on all three stock exchanges of Pakistan. Major shareholding of the company rests with Associated Companies, Directors and Individuals.

RATING RATIONALE

The assigned ratings to PGLC incorporate sound asset quality indicators, growing profitability levels and adequate liquidity profile. Capitalization levels of the Company have grown over time on account of profit retention while gearing and leverage indicators have been maintained at adequate levels. Ratings also reflect Company's steady performance in the backdrop of challenging operating environment for privately-sponsored leasing companies facing limited growth, reduction in the rate of initial depreciation, application of Alternate Corporate Tax regime and high cost of funding.

Lease portfolio of the company increased by 19% during FY15 with most of the growth witnessed in the last quarter, as has been observed in the past. A sizeable amount of the growth in portfolio and disbursements during FY15 pertained to a single client. The company has realized significant depreciation allowance from this lease during FY15. PGLC follows a prudent disbursement strategy, which revolves around adding fresh creditworthy lessees every year, in addition to generating additional business from clients with sound repayment history. Consequently, infection in the portfolio has been maintained at a negligible level. In order to extend securitization of its exposure beyond that provided by assets leased, the Company has increasingly collateralized its leasing finance exposure by obtaining registered mortgages and charge on assets of its lessees and/or those of related parties. Such securitization is in addition to the standard legally documented comfort obtained from client. While concentration risk in the portfolio has declined on a timeline basis, the same continues to be on the higher side with top ten clients representing over two-third of the leasing portfolio.

Profitability of the company has grown over the years with increase in lease portfolio; although growth in profitability has been at a slower pace in comparison to growth in lease portfolio. Almost the entire lease portfolio of the company comprises variable rate leases; however, risk to interest rate fluctuations is partly mitigated by establishing the KIBOR rate, at the time of lease disbursement, as a minimum floor. Impact of declining interest rates on future profitability of the company will continue to be tracked by JCR-VIS, notwithstanding PGL's policy of managing this issue by enhancing its spread for new leases. The change in tax regime in terms of introduction of Alternate Corporate Tax (ACT) applied on accounting income and decision of the Federal Government, in the country's Budget for FY14-15, to halve the rate of Initial Depreciation Allowance from 50% to 25% for some assets, as prescribed by the Income Tax Ordinance, may increase tax burden on the leasing industry, going forward. Deferred tax liabilities carried on the balance sheet are on the higher side while carry forward tax losses are limited. The management has planned a number of initiatives to counter the same including increasing the quantum of leased assets (disbursement targeted at Rs. 1b during FY16) and spreading the disbursement of leases over the entire financial year. Progress against meeting disbursement target will be monitored by JCR-VIS.

Liquid assets carried on balance sheet represent around 19% of total borrowings. Cash recoveries of the company are sufficient to meet operating expenses and finance cost with excess cash along with additional borrowings being used to fund disbursements. Gearing[1] and debt leverage[2] ratio of PGLC stood at 0.71x and 1.00x, respectively, at end-FY15. While management expects debt levels to increase to fund planned growth in leasing portfolio, leverage indicators are expected to remain within manageable levels given current capitalization levels, planned equity injection from rights issue and assuming continuity in profit retention.

[1] *For the purpose of gearing, equity figure has been calculated including surplus on revaluation of assets*

[2] *For the purpose of debt leverage, equity figure has been calculated including surplus on revaluation of assets*

Pak Gulf Leasing Company Limited (PGLC) — Appendix I

FINANCIAL SUMMARY			(amounts in PKR millions)
BALANCE SHEET*	**June 30, 2015**	**June 30, 2014**	**June 30, 2013**
Total Investments	28.2	23.9	5.3
Net Investment in Leases	883.1	744.0	565.2
Total Assets	1094.3	900.5	680.5
Borrowings	389.3	259.0	97.0
COI	156.5	137.1	59.8
Subordinated Loans	40.0	22.0	-
Tier-1 Equity	503.2	450.6	419.2
Net Worth	547.5	494.8	464.8
***Where applicable, figures are net of lease key money*			
INCOME STATEMENT	**June 30, 2015**	**June 30, 2014**	**June 30, 2013**
Net Mark-up Income (excluding finance cost)	96.9	80.8	65.4
Net (Provisioning) / Reversal	0.05	(1.42)	6.9
Operating Expenses	46.2	37.1	31.7
Profit (Loss) Before Tax	54.3	47.7	46.7
Profit (Loss) After Tax	50.3	29.2	27.3
RATIO ANALYSIS	**June 30, 2015**	**June 30, 2014**	**June 30, 2013**
Gross Infection (%)	2.9	3.5	4.8
Provisioning Coverage (%)	99.4	99.1	93.5
Net Infection (%)	0.02	0.03	0.30
Efficiency (%)	38.2	39.2	41.4
ROAA (%)	3.9	3.0	3.2
ROAE (%)	9.6	6.1	6.2
Current Ratio (x)	1.08	1.3	2.6

ISSUE/ISSUER RATING SCALE & DEFINITIONS   Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	**Appendix III**
Name of Rated Entity	Pak Gulf Leasing Company Limited (PGLC)
Sector	Non-Bank Financial Institution (NBFC)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27-Nov-15	A-	A-2	Stable	Reaffirmed
25-Sep-14	A-	A-2	Stable	Upgrade
06-Apr-13	BBB+	A-3	Stable	Reaffirmed
29-Jul-11	BBB+	A-3	Stable	Upgrade

Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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