RATING REPORT

Pak-Gulf Leasing Company Limited (PGLC)

REPORT DATE:
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RATING ANALYSTS:
Muniba Khan
muniba.khan@jcrvis.com.pk

Narendar Shankar Lal
narendar.shankar@jcrvis.com.pk

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	*Dec 30, '16*		*Nov 27, '15*	

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 – 16.65%	
Mr. Pervez Inam – 15.58%	
Mr. Sohail Inam Ellahi – 9.66%	
Mr. Muhammad Ali Pervez – 9.26%	
Mr. Hassan Sohail – 9.26%	
Mr. Yousuf Jan Muhammad – 7.18%	
Unibro Industries Ltd – 5.91%	
Mr. Fawad S Malik – 5.32%	
Mid East Agencies (Pvt.) Ltd – 5.07%	

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 the Pakistan Stock Exchange. Majority shareholding of the company rests with associated companies, directors and individuals.

RATING RATIONALE

PGLC is primarily engaged in the business of leasing and its registered office is located in Karachi from which country wide services are rendered. Majority stake of the company is vested with directors and executives (30.98%) and associated companies (10.98%). Kraftex Limited also holds sizeable (16.7%) shareholding of the company.

Rating Drivers

Lease Portfolio: Lease portfolio (net of lease key money) of PGLC grew by 11% with majority increase witnessed in the last quarter; this trend has been observed on a timeline basis. Portfolio witnessed modest growth on account of lower industrial growth and prudent disbursement strategy of the management given that reputation and repayment history of counterparties is scrutinized thoroughly prior to disbursement. Ijarah lease portfolio of the company also observed a sizeable increase in FY16; however, the management has decided to restrict fresh business to conventional leasing till an ongoing litigation with Sindh Revenue Board relating to Ijarah leases is resolved.

Portfolio quality indicators: As a result of prudent disbursement strategy of the company, 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, PGLC also obtains registered mortgages, corporate guarantees and charge on assets of its lessees and/or those of related parties as a part of collateral. On the other hand, despite declining on a yearly basis, concentration in the portfolio remains sizeable on account of selective disbursement strategy followed by the company.

Profitability: Lease portfolio 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. Income from leasing activities depicted a sizeable growth primarily on the back of higher Ijarah rentals. However, Ijarah assets allowed the company to realize significant depreciation allowance, during FY16. Hence, growth in expenses outweighed the growth witnessed in topline, thereby decreasing net profit of the company. Given that the management has decided not to pursue Ijarah lease for the time being, conventional lease portfolio must be increased in order to sustain growth in leasing income. Moreover, deferred tax liabilities carried on the balance sheet remain on the higher side while carry forward tax losses are limited, which may result in pressure on profitability in future years.

Capitalization and Liquidity: Liquid assets carried on balance sheet represent around 20% of total borrowings and COIs. 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. At end-FY16, total equity of the company stood higher at Rs. 546.9m (FY15: Rs. 503.2m) on the back of profit retention. Gearing and debt leverage of the company stood at 0.83x (FY15: 0.77x) and 1.2x (FY15: 1.1x) at end-FY16, respectively. Leverage indicators are expected to further increase in view of the anticipated growth in leasing portfolio. However, the same are expected to remain within manageable levels given current capitalization levels and assuming prudent retention of profits.

Pak Gulf Leasing Company Limited (PGLC) — Appendix I

FINANCIAL SUMMARY			(amounts in PKR millions)
BALANCE SHEET*	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
Total Investments	46.2	30.3	23.9
Net Investment in Leases	976.4	883.1	744.0
Total Assets	1,288.9	1094.3	900.5
Borrowings	187.9	232.9	121.9
COI	264.8	156.5	137.1
Tier-1 Equity	546.9	503.2	450.6
Net Worth	628.6	547.5	494.8
**Where applicable, figures are net of lease key money*			
INCOME STATEMENT	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
Net Mark-up Income (excluding finance cost)	114.4	96.9	80.8
Net (Provisioning) / Reversal	-	0.05	(1.42)
Operating Expenses*	44.0	35.6	34.1
Depreciation charged against ijarah assets	28.3	10.6	3.0
Profit (Loss) Before Tax	51.2	54.3	47.7
Profit (Loss) After Tax	40.7	50.3	29.2
RATIO ANALYSIS	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**
Gross Infection (%)	2.6	2.9	3.5
Provisioning Coverage (%)	99.4	99.4	99.1
Net Infection (%)	0.02	0.02	0.03
Efficiency (%)	48.7	38.2	39.2
ROAA (%)	2.6	3.9	3.0
ROAE (%)	7.0	9.6	6.1
Current Ratio (x)	1.04	1.09	1.3

** excluding depreciation charged against Ijarah assets*

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	see table below
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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-Dec-16	A-	A-2	Stable	Reaffirmed
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