RATING REPORT

Pak-Gulf Leasing Company Limited (PGLC)

REPORT DATE:
January 30, 2018

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*Jan 30, '18*		*Dec 30, '16*	

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
Mr. Pervez Inam – 15.58%	
Mr. Muhammad Ali Pervez – 14.26%	
Mr. Hassan Sohail – 14.26%	
Mr. Sohail Inam Ellahi – 9.66%	
Mr. Javed Inam Ellahi – 6.66%	
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 (October 2017)
http://jcrvis.com.pk/docs/NBFCs%20201710.pdf

Pak Gulf Leasing Company Limited (PGLC)

OVERVIEW OF THE INSTITUTION

Pak-Gulf Leasing Company Limited (PGLC) was incorporated in 1994 and commenced operations from September 16, 1996. Majority shares of PGLC are held by members of Unibro Industries Group which includes sponsor directors. Financial statements for FY17 have been audited by M/s BDO Ebrahim & Co. Chartered Accountants

Profile of Chairman:

Mr. Sohail Inam Ellahi is the present CEO of Unibro Industries Limited. He has been associated with PGLC from the Company's inception and has also previously served as the Chief Executive Officer of PGLC. He is an Associate in Arts from Foothill College of the California Community Colleges, USA & holds a Bachelor of Science degree in Business Administration (Accounting) from San Jose State University in California, USA. He is a former Member of the Executive Committee of APTMA.

Profile of CEO:

Mr. Mahfuz-ur-Rehman Pasha served as an Officer of the Inland Revenue Service of the Federal Government of Pakistan

RATING RATIONALE

Pak-Gulf Leasing Company Limited (PGLC) is primarily engaged in the business of leasing and operates through its registered office in Karachi. The company has also opened a branch in Lahore in order to cater to its clients in the northern region. Majority stake of the Company is vested the members of the Unibro Industries Group and its associated companies. Unibro Group is a long established Quality Textile Products Manufacturer and Exporter of Pakistan and operates from Karachi. Risk profile of PGLC has improved over the last year despite distressed economic conditions. Low leverage and cautious selection of business have contributed to the Company's ability to grow in the current trying circumstances.

Rating Drivers

Lease Portfolio: During FY17, fresh disbursements amounting to Rs. 664.9m were made vis-à-vis Rs. 622.6m last year. These funds were largely parked against clients associated with manufacturing, entertainment and automobile sectors. The Company has kept its Ijarah operations on hold on account of an ongoing litigation with the Sindh Revenue Board relating to treatment of Sales Tax on Ijarah transactions. With increase in disbursements, lease portfolio of PGLC (net of lease key money) crossed the Rs. 1b mark at end June 30, 2017. Management has set a lease disbursement target in excess of Rs. 1b for FY18. In order to further diversify its product portfolio, the Company has also launched a Sharia-compliant diminishing mushrakah mode of financing for its clients. This would allow PGLC to cater to clients who prefer the Islamic way of financing over the conventional mode.

Portfolio Quality Indicators: In line with PGLC's conservative stance, infections levels continue to remain at a negligible level. With no fresh provisioning and a higher portfolio, gross and net infection in lease portfolio (including terminated leases) reduced to 2.2% (FY16: 2.6%) and 0.01% (FY16: 0.02%), respectively during FY17. Management plans to write off its NPLs during 2018 in order to bring its infection levels to nil. Nonetheless, concentration in the portfolio remains sizeable although depicting a declining trend. Given the noticeable concentration in the portfolio, credit risk emanating from the portfolio is considered sizeable. As part of its disbursement strategy, the Company ensures that all major exposures are collaterally securitized with registered mortgages, corporate & third party guarantees and/or registered charge on assets of PGLC's lessees or those of related parties. As a matter of policy, the Forced Sale Value (FSV) of collateral assets is kept higher than the net exposure amount of lease. Management intends to employ greater granularity in building up the Company's lease portfolio in order to remain commensurate with PGLC's growth strategy.

Profitability: Profitability of the Company has grown at a steady pace on account of growth in lease portfolio during FY17. Entire lease portfolio of the Company comprises variable rate leases with interest rate risk fully mitigated by pegging the fixed spread over and above a periodically reviewed KIBOR as a minimum floor, at the time of lease disbursement. The overall rate increases with any upward movement in KIBOR, but is not reduced beyond the KIBOR benchmark at the time of writing a lease. Impact of interest rates on future profitability of the Company will continue to be monitored. Nevertheless, profitability may be adversely impacted by PGLC's higher deferred tax liabilities carried on the balance sheet and limited carry forward tax losses.

Capitalization and Funding: On account of internal capital generation, equity base of PGLC augmented to Rs. 676.0m (FY16: Rs. 628.6m) at end-FY17. During the outgoing year, the

Company also paid dividends amounting to Rs. 12.7m for FY16. Certificates of Investments (CoIs) remain the primary source of funding for the Company amounting to Rs. 404.1m at end-June 2017 vis-à-vis Rs. 264.8m at end of the corresponding period last year. Majority of CoIs, a majority of which are held by related parties, are rolled over at maturity each year. In order to fund its growth strategy, PGLC also mobilized short term running finance facilities from three commercial banks and a medium term finance facility from one. Leverage indicators commensurate with the current ratings despite these additional borrowings.

for 30 years, before retiring in 2011, in BPS-21. He took up the position of CEO of PGLC in 2013. Mr. Pasha holds a B.Sc. (Electrical Engineering) degree from the University of Peshawar and a Diploma in Elementary German Language. He is an Associate Member of the Institution of Engineers, Pakistan (IEP) and a Certified Director from the Pakistan Institute of Corporate Governance (PICG). He currently serves as a Director on the Boards of NTDCL, Mirpurkhas Sugar Mills Ltd & Kaghan Development Authority. Mr. Pasha is also a former Chairman & a Member of the Executive Committee of the NBFI & Modaraba Association of Pakistan.

Pak Gulf Leasing Company Limited (PGLC) — Appendix I

FINANCIAL SUMMARY			(amounts in PKR millions)
BALANCE SHEET*	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
Total Investments	68.6	46.2	30.3
Net Investment in Leases	1,196.8	976.4	883.1
Total Assets	1,538.3	1,288.9	1094.3
Borrowings	189.5	187.9	232.9
COI	404.1	264.8	156.5
Tier-1 Equity	583.4	546.9	503.2
Net Worth	676.0	628.6	547.5
**Where applicable, figures are net of lease key money*			
INCOME STATEMENT	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
Net Mark-up Income (excluding finance cost)	122.9	114.4	96.9
Net (Provisioning) / Reversal	-	-	0.05
Operating Expenses*	46.4	44.0	35.6
Depreciation charged against ijarah assets	30.1	28.3	10.6
Profit (Loss) Before Tax	65.5	51.2	54.3
Profit (Loss) After Tax	47.1	40.7	50.3
RATIO ANALYSIS	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
Gross Infection (%)	2.2	2.6	2.9
Provisioning Coverage (%)	99.4	99.4	99.4
Net Infection (%)	0.01	0.02	0.02
Efficiency (%)	48.2	48.7	38.2
ROAA (%)	2.4	2.6	3.9
ROAE (%)	7.2	7.0	9.6
Current Ratio (x)	0.9	1.0	1.1

** 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-Jan-18	A-	A-2	Stable	Reaffirmed
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