RATING REPORT

Pak-Gulf Leasing Company Limited (PGLC)

REPORT DATE:
April 22, 2019

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	*Apr 15, '19*		*Jan 30, '18*	

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)

VIS Entity Rating Criteria: Non-Bank Financial Companies (October 2017)
http://vis.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 as a public limited company and commenced operations from September 16, 1996. Financial statements for FY18 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.

RATING RATIONALE

PGLC is primarily engaged in the business of leasing and operates through its registered office in Karachi. The company has also established an office in Lahore which caters to the requirement of clients located in the northern region. Majority stake of the Company is vested in the members of the Unibro Business Industries and its associated companies.

Rating Drivers

Lease Portfolio: Disbursements registered an increase of 18.3% in FY18 compared to preceding year (FY18: Rs. 786.3m; FY17: Rs. 664.9m). Fresh leases were primarily placed against clients associated with construction, healthcare, education and advertisement sectors. As per management, Ijarah operations are on hold from past two years due to ongoing litigation with the Sindh Revenue Board relating to treatment of Sales Tax on Ijarah transactions. During FY18, an Islamic finance product of Diminishing Musharaka was also launched by the company. Two musharaka contracts were written in FY18; however, due to delays in recoveries in the same, the management has decided to focus on conventional leasing as the medium of growth going forward. With higher disbursements, lease portfolio of PGLC (net of lease key money) was also reported higher at Rs. 1.46b (FY17: Rs. 1.2b) at end-FY18. Further growth was witnessed in HY19 as the lease portfolio (net of lease key money) increased to Rs. 1.50b. Management is aiming to increase the size of the net lease portfolio to Rs. 2.0b by end-FY19 by targeting pharmaceutical and construction sectors.

Portfolio Quality Indicators: With an increase in the company's portfolio size, infection levels have witnessed an increasing trend on year on year basis. Gross infection and net infection in lease portfolio increased to 3.0% (FY17: 2.2%) and 1.2% (FY17: 0.01%), respectively during FY18. Gross and net infection ratios were reported at 3.6% and 1.6% in HY19 due to non-payment of diminishing musharaka receivables. Concentration continues to remain on a higher side in terms of client portfolio as top 10 clients represent 37.2% (FY17: 47%) in FY18 of total portfolio. As part of its disbursement strategy, the management ensures that collateral, in the form of registered mortgages, corporate & third party guarantees and/or registered charge on assets of PGLC's lessees or those of related parties, is undertaken against all major exposures. It is ensured that the Forced Sale Value (FSV) of collateral assets is higher than the net exposure amount of a lease.

Profitability: Growth in lease portfolio has aided improvement in profitability on timeline basis. Profit before tax and profit after tax of the company were reported at Rs. 28.4m (HY18: Rs. 27.5m; FY18: Rs. 80.6m; FY17: Rs. 65.5m) and Rs. 27.4m (HY18: 2.8m; FY18: Rs. 69.4m; FY17: Rs. 47.1m) respectively, in HY19. Entire lease portfolio of the company comprises of 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.

Profile of CEO:

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

Capitalization and Funding

Equity base of the company grew by 7.6% by end-FY18 (FY18: Rs. 727.0m; FY17: 676.0m). The growth in equity base of the company was witnessed due to profit retention. The company paid a dividend of Rs. 31.7m (FY17: Rs. 19.0m) for FY18. Due to payment of dividend, equity base of the company was reported only marginally lower at Rs. 723.5m (FY18: Rs. 727.0m) at end-HY19. Dividend payout ratio was 45.8% (FY17: 40.3%) in FY18.

The company has mobilized funding from Certificates of Investment (CoIs) and borrowings from financial institutions. A majority of CoIs are held by related parties and are rolled over at maturity date. At end-HY19, CoIs amounted to Rs. 387.1m (FY18: Rs. 378.1m; FY17: 404.1m). Short term borrowings remained the primary source of funding for borrowings as the same amounted to Rs. 435.0m (FY18: 387.6m; FY17: Rs. 189.5m) at end-FY19. Going forward, borrowings will continue to remain preferred funding avenue of the management.

Pak Gulf Leasing Company Limited (PGLC) Appendix I

FINANCIAL SUMMARY			(amounts in PKR millions)
BALANCE SHEET*	**FY16**	**FY17**	**FY18**
Total Investments	43.5	66.5	62.6
Net Investment in Leases	976.4	1,196.8	1,461.3
Total Assets	1,288.9	1,538.3	1,761.6
Borrowings	187.9	227.0	408.4
COI	264.8	404.1	378.1
Tier-1 Equity	546.9	583.4	633.7
Net Worth	628.6	676.0	727.0
**Where applicable, figures are net of lease key money*			
INCOME STATEMENT	**FY16**	**FY17**	**FY18**
Net Mark-up Income (excluding finance cost)	114.4	122.9	130.5
Operating Expenses*	44.0	46.4	53.7
Depreciation charged against ijarah assets	28.3	30.1	18.9
Profit (Loss) Before Tax	51.2	65.5	80.6
Profit (Loss) After Tax	40.7	47.1	69.4
RATIO ANALYSIS	**FY16**	**FY17**	**FY18**
Gross Infection (%)	2.6	2.2	3.0
Provisioning Coverage (%)	99.4	99.4	58.9
Net Infection (%)	0.02	0.01	1.2
Efficiency (%)	48.7	48.2	39.6
ROAA (%)	2.6	2.5	3.1
ROAE (%)	7.0	7.3	10.1
Current Ratio (x)	1.02	0.9	1.03

** 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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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				
22-Apr-19	A-	A-2	Stable	Reaffirmed
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

Instrument Structure	N/A
Statement by the Rating Team	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	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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