RATING REPORT

Pak-Gulf Leasing Company Limited (PGLC)

REPORT DATE:
July 7, 2020

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			
Rating Date	*July 7, 2020*		*Apr 15, '19*	

COMPANY INFORMATION

Incorporated in 1994	**External Auditors:** **FY 2020:** M/s Grant Thornton Anjum Rahman – Chartered Accountants **FY 2019:** M/s BDO Ebrahim & Company – Chartered Accountants
Public Listed Company	**Chairman of the Board**: Mr. Sohail Inam Ellahi
Key Shareholders (with stake of 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 Ellahie – 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 (March 2020)
http://vis.com.pk/kc-meth.aspx

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 FY19 have been audited by M/s BDO Ebrahim & Co., Chartered Accountants

Profile of Chairman:

Mr. Sohail Inam Ellahi is the present Chairman of Unibro Industries Limited. He has been associated with PGLC from the Company's very 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

Pak-Gulf Leasing Company Limited (PGLC) is a prominent and the only privately-sponsored company that has been an active and profitable institution in the Pakistani leasing sector for almost quarter of a century. Currently, the company operates out of the head office in Karachi and a branch office located in Lahore. Shareholding pattern illustrates that majority interest is held by members of the Unibro Industries Ltd., a well-established manufacturer and export house for home textile, and one of its associated companies.

Key Rating Drivers:

Lease portfolio was maintained around prior year's level. Focus will remain on cautious underwriting amid ongoing COVID-19 situation and ensuing economic slowdown.
Reflecting the economic slowdown in the country, in FY19, the total disbursements stayed almost at the same level as in the preceding year at Rs. 779m (FY18: Rs. 786.3m) while disbursements amounted to Rs. 475m in 9MFY20. The company has introduced a new product in the form of Auto Loans, while continuing to provide Finance Lease and Diminishing Musharaka facilities. Ijarah operations are on hold due to ongoing litigation with the Sindh Revenue Board relating to treatment of Sales Tax on Ijarah transactions. In line with trend in disbursements, the growth in its lease portfolio (net of lease key money) has also remained negligible at Rs. 1.58b (FY18: Rs. 1.46b) at end-FY19. By end-9MFY20, the lease portfolio stood at Rs. 1.53b. Management expects slowdown in disbursements during the ongoing year due to economic slowdown arising from COVID-19. Going forward, Management will restrict itself to a limited amount of fresh leasing, while continuing to service existing clients, besides concentrating on recoveries. Selective underwriting may, however, be pursued based on risk assessment. Key sectors targeted include pharmaceutical, healthcare providers, food, construction equipment and oil marketing companies.

Asset quality indicators remain at manageable levels while risk management controls have been strengthened.
Gross and net infection in lease portfolio increased to 4.9% (FY18: 3%) and 2.34% (FY18: 1.20%) respectively, during FY19. Gross and net infection further increased to 4.8% and 0.2% by end-9MFY20 respectively. Increase in NPLs is mainly attributed to non-payment of diminishing musharaka receivables by select construction contracting clients in Karachi. Concentration continues to remain high with respect to the top 10 clients in the portfolio. In the ongoing fiscal year, the company added a new Senior Manager Recovery & Inspection and one other resource to the Recovery department, while also introducing new inspection measures. In addition, at the time of lease agreement, the management has also begun to undertake verification of the Guarantors to a lease agreement. As part of its disbursement strategy, the management ensures that collateral securities, 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, are obtained, wherever possible, against all major exposures. It is ensured that the Forced Sale Value (FSV), as determined by a thorough inspection and valuation process by one of the most prominent and

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 & National Power Parks Management Company Limited. Mr. Pasha is also a former Chairman & a Member of the Executive Committee of the NBFI & Modaraba Association of Pakistan.

qualified Valuation Agencies, of the Leased Assets is higher than the net exposure amount of a lease. A similar valuation process is undertaken for collateral securities. Comprehensive Insurance of all such Assets is obtained from at least an AA-rated Insurance Company, with PGLC denoted as the "Loss Payee". Overall monitoring and risk management controls have been strengthened with specific analyses being conducted to assess impact of COVID-19.

Operating profitability has improved but provisions against financing have resulted in a relatively lower profit before tax. Profitability is projected to be maintained in FY21 due to variable rate lease structure, with the addition of a "Floor and No Cap" Clause for each Lease, with respect to the Benchmark Rate obtaining on the date of disbursement, namely KIBOR, reviewed on a 6-monthly basis. PGLC's Spread remains fixed throughout the term of a Lease.

Although operating profit increased to Rs. 86.8m (FY18: Rs. 80.0m), higher provisions against financings translated into lower profit before tax of Rs. 71.2m (FY18: Rs. 80.6m) in FY19. In 9MFY20, operating profit increased to Rs. 56.5m (9MFY18: Rs. 54.1m) but higher provisions translated into lower profit before tax of Rs. 7.7m (9MFY18: Rs. 44.8m).

Capitalization indicators remain compliant with regulatory requirements while borrowings remain the primary funding source, in addition to redeployment of Lease Rentals realized on a regular basis.

Equity base of the company grew by 4% by end-FY19 (FY19: Rs. 759m; FY18: Rs. 727.0m). The growth in equity base of the company was witnessed due to profit retention. The company paid a dividend of Rs. 19.0m (FY18: Rs. 31.7m) for FY19. Due to payment of dividend, equity base of the company was reported only marginally lower at Rs. 747m (FY19: Rs. 759m) at end-9MFY20. 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-9MFY20, CoIs amounted to Rs. 400m (FY19: Rs. 392m; FY18: Rs. 378.1m). Short term borrowings from commercial banks, on an annual roll-over basis, remained the primary source of funding for borrowings as the same amounted to Rs. 414.3m (FY18: 387.6m) at end-FY19. Going forward, borrowings will continue to remain the preferred funding avenue of the management, in accordance with its established policy of not resorting to a wholesale marketing of its CoIs, as a source of funding PGLC's funding requirements for enhancing its Lease Portfolio.

Pak Gulf Leasing Company Limited (PGLC) Appendix I

FINANCIAL SUMMARY (amounts in PKR millions)			
BALANCE SHEET*	**FY17**	**FY18**	**FY19**
Total Investments	66.5	63	63
Net Investment in Leases	1,196.8	1,461.31	1,575.36
Total Assets	1,538.3	1,761.6	1,873.8
Borrowings	227	408	464
COI	404	378	392
Paid up capital	253.7	253.7	253.7
Tier-1 Equity	583.4	634	666
Net Worth	676	727	759
**Where applicable, figures are net of lease key money*			
INCOME STATEMENT	**FY17**	**FY18**	**FY19**
Net Mark-up Income (excluding finance cost)	122.9	130.5	140.9
Operating Expenses	46.4	53.7	61
Finance Cost	30	48	78
Operating Profit	65.5	80	87
Provision for potential lease losses	-	(0)	(1)
Provision against DM receivable - net	-	-	(9)
Provision against litigation receivable - net	-	1	(5)
Profit (Loss) Before Tax	65.5	80.6	71
Profit (Loss) After Tax	47.1	69.4	64
RATIO ANALYSIS	**FY17**	**FY18**	**FY19**
FFO	n/a	n/a	n/a
Gross Infection (%)	2.2	3.0	4.9
Provisioning Coverage (%)	99.4	58.9	52.3
Net Infection (%)	0.01	1.2	2.34
Efficiency (%)	48.2	39.6	34.9
ROAA (%)	2.5	3.1	2.5
ROAE (%)	7.3	10.1	8.7
Gearing	n/a	n/a	n/a
Current Ratio (x)	0.9	1.03	1.41

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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	(see table below)
Instrument Structure	N/A
Due Diligence Meeting with	Ms. Mehreen Usama – Chief Financial Officer Mr. Khalil Anwer Hassan - General Manager Sindh Mr. Mahfuz-ur-Rehman Pasha - Chief Executive Officer
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-Jun-20	A-	A-2	Stable	Reaffirmed
15-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