RATING REPORT

Pak-Gulf Leasing Company Limited (PGLC)

REPORT DATE:
September 21, 2023

RATING ANALYSTS:

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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	*September 21, 2023*		*May 16, 2022*	

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 – 9.68%	
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 (March 2020)
https://docs.vis.com.pk/docs/NBFCs202003.pdf

VIS Issue/Issuer Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Pak-Gulf Leasing Company Limited (PGLC)

RATING RATIONALE

The ratings assigned to Pak-Gulf Leasing Company Limited (PGLC or 'the Company') take into account PGLC's adequate profitability, improvement in asset quality indicators in line with adoption of new accounting methodology and steady growth in capitalization indicators. Ratings also incorporate the challenging operational environment for privately-sponsored leasing companies in particular, where competition with banks and limited access to capital constrains the opportunities for accelerated growth.

Company Introduction

PGLC is a prominent leasing company that has been an active institution in the Pakistani leasing sector for over twenty-five years. Currently, the Company operates out of the head office in Karachi and a branch office located in Lahore. PGLC is listed on Pakistan Stock Exchange. The shareholding pattern illustrates that majority interest is held by members of the Unibro Group and its associated companies.

Rating Drivers

Portfolio Composition

The Company continued its focus on extension of finance lease to corporates for machinery & equipment along with auto loans to individuals. The portfolio in the Table-1 presented below is adjusted for unearned lease income and markup held in suspense. Accordingly, total finance lease constituted the major proportion of the portfolio at 91% (Jun'21: 95%) at end-FY22; the same remained largely unchanged at end-9MFY23. Subsequently, the share of auto loans increased to 9% (FY22: 9%; FY21: 5%) on a timeline by end-9MFY23. The growth in auto loans was a result of banking regulator prohibiting consumer auto loans on imported vehicles, and locally manufactured vehicles to the extent of Rs.3m per consumer; however, no such prohibition was made for the NBFC sector. Total outstanding gross portfolio of PGLC registered an increase of 19% in FY22; however, the same has declined by 23% during 9MFY23, owing to drop in auto loans to Rs. 189.5m (FY22: 239.9) as escalation in car prices and high benchmark rate prevalent resulted in auto leasing becoming unaffordable for major target market segments.

As per management, top-3 sectors in finance lease portfolio include Energy (16%), Steel engineering & auto (14%) and Electrical goods (13%). The other major sectors are Transport & Communication (10%), Chemical & Fertilizers (8%), Pharmaceuticals (8%) and Textile (6%). Moreover, continuous efforts are made by the management to improve client concentration; the same was successfully reduced to 38% (FY22: 41%; FY21: 57%) by end-9MFY23. The snapshot of portfolio is given in table below:

Table 1: Portfolio Composition

PkR (Mn.)	Jun'21	%	Jun'22	%	Mar'23	%
- **Finance Lease**	2,003	*86%*	2,417	*87%*	1,836	*86%*
- **Diminishing Musharka**	19	*1%*	19	*1%*	19	*1%*
- **Lease receivable under litigation**	190	*8%*	96	*3%*	90	*4%*
Finance Lease – total	2,212	*95%*	2,532	*91%*	1,945	*91%*
Auto-Finance	118	*5%*	240	*9%*	189	*9%*
Total	**2,330**	***100%***	**2,772**	***100%***	**2,134**	***100%***

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. The company is licensed to carry out leasing business as a Non-Banking Finance Company (NBFC). Financial statements for FY21-22 have been audited by M/S BDO Ebrahim & Company, Chartered Accountants

Profile of Chairman:

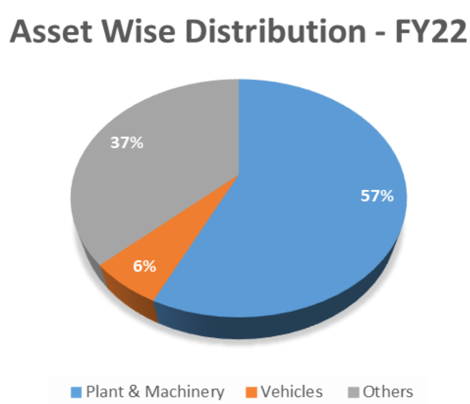
Mr. Sohail Inam Ellahi is the present CEO of Unibro Industries Limited. He has been associated with PGLC from the Company's inception and has also previously served as the Chief Executive Officer of PGLC. He is an Associate in Arts from Foothill College of the California Community Colleges, USA & holds 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 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 Kaghan Development Authority and National Power Parks Management Company (Private) Limited. Mr. Pasha is also the current Chairman & a Member of the Executive Committee of the NBFI & Modaraba Association of Pakistan.

Lease Disbursement

During FY22, 80 new leases (FY21: 55) and 40 (FY21: 40) auto-finance loans aggregating to Rs. 1.4b (FY21: Rs. 1.1b) were written. Moreover, the total lease disbursement amount was also recorded higher at Rs. 972m (FY21: Rs. 785m) during FY22. However, owing to high interest rates environment which discourages leases, lease disbursement significantly declined to Rs. 60m during 1HFY23 as compared to Rs. 647m in the corresponding period last year. Sindh accounted for the highest disbursements with Rs. 544m (56%) followed by Punjab at Rs. 428m (44%). The concentration remained in major metropolitan cities like Karachi and Lahore. Corporate clients continued to constitute the major chunk of disbursements with 66% disbursement while the remaining pertained to individuals during FY22. As per the management, the Company opted for consolidation strategy for the outgoing year due to higher uncertainty on the macro-economic front; only lease applications of non-cyclical businesses and repetitive clients with tested track record were accepted. Therefore, the management expects to close FY23 with total disbursements ranging between Rs. 300-350m. However, the disbursement activities are expected to pick pace post-1QFY24 in line with projected improvement in overall macro-economic environment, PGLC is targeting disbursements around Rs. 600-700m for FY24. The target still remains on a lower side in comparison to historical numbers as the Company aims to continue with its conservative approach in client selection. Moreover, PGLC is not planning to launch any new product during the rating horizon. The asset wise distribution is given below:



Asset Quality Indicators improved on a timeline

Non-Performing Loans (NPLs) emanating from performing loans have notably increased to Rs. 136.2m (FY22: 138.3m; FY21: Rs. 75.0m) on a timeline by end-9MFY23. As per the management, the core reason for aforementioned increase was the change in financial reporting standards as the Company became Expected Credit Loss (ECL) compliant during the rating review period. On the other hand, with improved recovery of loans under litigation, overall NPLs decreased by end-9MFY23. Although court proceedings were initiated for two clients pertaining to healthcare and media industry during FY21, out of court settlements were reached in line with strong efforts made by management which in turn led to restructuring of the aforementioned clients. Consequently, PGLC registered provisioning reversals resulting in decline of provisioning held under litigation during FY22 and onwards. On the other hand, provision against potential lease losses (Table 2 below) increased on a timeline on account of implementation of new financial reporting model driven by higher recognition of NPLs. Moreover, the diminishing Musharika portfolio remains fully provided with no recovery made during the review period. Gross infection exhibited a mixed trend with decline in FY22 owing to reduction in npls primarily pertaining to litigation followed by an increase in 9MFY23 on account of reduced portfolio size. On the other hand, net infection decreased on a timeline basis owing to higher provisioning carried out. Subsequently, provision coverage has improved considerably.

Table 2: Asset Quality

PkR (Mn.)	FY21	FY22	9M23
- **NPLs**	75	138	136
- **Under-Litigation**	190	96	90
Total Non-Performing	**265**	**234**	**227**
- **Provision against potential lease losses (finance lease)**	30	64	124
- **Diminishing Musharka Provisions**	19	19	19
- **Provision against lease receivable held under litigation**	106	50	46
- **Provision against Auto Finance Loans**	-	4	5
Total Provisioning	**155**	**137**	**194**
Gross Infection (%)	*11.4%*	*8.5%*	*10.6%*
Net Infection (%)	*5.1%*	*3.7%*	*1.7%*
Provisioning Coverage (%)	*58%*	*58%*	*85%*

Improvement in operating profit has been incorporated in the assigned rating

The income from financing operations increased to Rs. 228.4m (FY21: Rs.191.5m) in FY22 on account of higher finance income reaped at Rs. 187.8m (FY21: Rs. 164.3m); the same is attributable to increase in both disbursements and discount rate. Markup on auto loans is the second highest contributor of financing income with 12% (FY21: 4%) in FY22. Further, return on investments also inched up slightly to Rs. 5.2m (FY21: Rs. 4.5m) during FY22 in line with higher return on government securities. On the flip side, finance cost was recorded higher at Rs. 69.1m (FY21: Rs. 42.1m) during FY22 owing to increase in COIs and discount rates. However, given higher reliance on internal equity and low-cost COIs as compared to borrowings, net spreads of the Company improved to Rs. 164.6m (FY21: 153.8m) in FY22. In addition, PGLC's other income also doubled to Rs. 21.5m (FY21: 10.1m) in FY22, as the Company conducted a revaluation exercise for its investment property resulting in an unrealized gain of Rs. 10.3m. With expense rationalization resulting in slight improvement in efficiency, operating profit enhanced to Rs. 122.0m (FY21: 103.0m) during FY22. Furthermore, owing to net provisioning reversal of Rs. 45.6m, PGLC's Profit before Tax (PBT) and Profit after Tax (PAT) notably increased to Rs. 167.8m (FY21: Rs. 28.0m) and 146.9m (FY21: Rs 24.6m) respectively in FY22.

The income from financing activities registered an uptick to Rs. 172.3m (9M22: 162.8m) during 9MFY23 mainly due to increased interest rate environment while return on investment also climbed up to Rs. 10.0m (9M22: 3.3m) in line with significant increase in T-bills exposure. Resultantly, income on markup bearing assets improved to Rs. 182.2m (9M22: 166.0m). Simultaneously, finance cost was also recorded higher at Rs. 62.2m (9M22: 44.8m) in line with increased utilization of deposits and policy rate change; the same resulted in net spread income remaining intact at prior year's level at Rs. 120.0m (9M22: 121.2m) during 9MFY23. However, other income was recorded at Rs. 9.3m in comparison to Rs. 8.3m in the corresponding period last year; other income mainly includes rental income on investment property. Moreover, operating expenses decreased to Rs. 39.9m (9M22: 47.1m) on account of reduction in payroll cost, worker's welfare fund and legal costs. As a result, operating income marginally increased to Rs. 89.4m (9M22: 82.4m) during 9MFY23. The Company made provisions of Rs. 60.6m using ECL methodology upon adoption of IFRS-9 in the previous fiscal year as against reversal of Rs. 17.6m in the comparative period last year. Moreover, provision on receivables under litigation was reversed by Rs. 3.7m due to recoveries made. In addition, due to deferred tax reversal of Rs. 81.8m in 9MFY23, the Company registered a net tax reversal of Rs. 24.4m as opposed to tax expense amounting to Rs. 30.3m in the corresponding period last year. Consequently, PAT of PGLC clocked in at Rs. 56.9 in 9M23 in comparison to Rs. 87.6m during same period last year. As per the management, the Company is expecting a provisioning reversal of ~Rs. 40m which will reduce the provisioning of FY23 to roughly around ~15-20m (Rs. 56.9m in 9MFY23); hence, the same is expected to have a positive impact on the bottom line.

Table 3: P&L (Extract)

PkR (Mn.)	FY21	FY22	9M23
Net Spread Income	154	165	120
Other Income	10	22	9
Recurring Income	**164**	**186**	**129**
Administrative Expenses	61	64	40
Efficiency	***37.2%***	***34.5%***	***30.9%***
Operating Profit	**103**	**122**	**89**
Provisioning (Charge)/Reversal	(75)	46	(57)
Provisioning Burden	***72.8%***	***-37.4%***	***63.7%***
Profit Before Tax	**28**	**168**	**32**
Profit After Tax	**25**	**147**	**57**

Ratings take into PGLC's debt and liquidity profile

Funding & Capitalization

With positive bottom line recorded on a timeline, PGLC's equity base has increased at end-Mar'23; the same was reflected in statutory reserves and unappropriated profits. Moreover, the equity is comfortably above than the minimum requirement of Rs. 500m as per NBFC Regulations. On the debt front, PGLC has a term finance facility of Rs. 300m availed for a period of three years while another long-term credit line of Rs. 150m has also been approved; however, only Rs. 50m has been utilized till date. The Company has also utilized short term financing facilities to the tune of Rs. 251.6m (FY21: Rs. 353.8m); these facilities are subject to roll overs on an annual basis. The long and short-term borrowings are secured by hypothecation charges over leased assets and rental receivables from relative leases. Given the subdued growth in leasing due to high KIBOR, significant portion of the available credit lines remained unutilized at end-Mar'23.

In terms of deposit taking, PGLC has issued Certificate of Investments (COIs) amounting to Rs. 330m (Jun'22: 337m, Jun'21: 191m) at end-Mar'23. COIs are issued for periods ranging from 12 months to 36 months. Around 99% of COIs are vested with related parties which are highly likely to be rolled over at their respective maturity dates. The snapshot of funding mix is presented below:

Table 4: Funding & Capitalization

PkR (Mn.)	FY21	FY22	9M23
Adjusted Equity (Exc. Surpluses)	**675**	**795**	**827**
- **Long Term Loan**	96	133	125
- **Lease Liabilities**	12	6	1

LT Borrowings	108	139	126
ST Borrowings	354	252	124
Total Borrowings	**462**	**391**	**250**
Gearing (x)	***0.68***	***0.49***	***0.30***
Certificate of Investments (COIs)	**191**	**337**	**330**

Liquidity

PGLC's liquidity profile is comfortable and has improved during the rating review period as evidenced from coverage of liabilities by liquid assets. The improvement was primarily underpinned by higher investment in risk-free sovereign securities. In addition, the Company had 15.3% of its funds raised through COIs invested in market T-bill to ensure compliance with the requirement of NBFC Regulations.

Table 5: Liquidity

PkR (Mn.)	FY21	FY22	9M23
Cash & Bank Balances	36	26.0	20
Sovereign Securities	30	51.7	198
Units of National Investment Trust	4	3.5	3
Liquid Assets	**70**	**81**	**221**
Liquid Assets to Liabilities	***4.2%***	***4.0%***	***15.5%***

Adequate Corporate Governance Framework

The Board of Directors (BoDs) comprise nine members including three independent, five non-executive directors and one executive director represented by the Chief Executive Officer. As per the revised code of corporate governance 2019, the BODs should have at least two or one-third independent directors whichever is higher; PGLC meets the best practices. In addition, the female representation with one member is also fulfilled. By end-FY22, 4 directors had acquired the required Certificate of Directors Training Course while one is exempted from this requirement. A total of 5 BoD meetings were convened during the outgoing year wherein the attendance of members is considered satisfactory. The performance of Board, which is reviewed and assessed against a sophisticated criterion, was found to be adequate based on the latest evaluation. Moreover, for effective oversight, the Board has formed two committees including Board Audit Committee (BAC) and Board Human Resource & Remuneration Committee. BAC is chaired by an independent director. The accounts for the last financial year were audited by M/S BDO Ebrahim & Company, Chartered Accountants; the retiring auditors being eligible for re-appointment have given their consent to act as statutory auditors of the Company for the ongoing year also. The external auditors fall in Category 'A' of auditors list issued by State Bank of Pakistan.

Pak-Gulf Leasing Company Limited (PGLC) Appendix I

FINANCIAL SUMMARY (amounts in PKR millions)					
BALANCE SHEET	**Jun'19**	**Jun'20**	**Jun'21**	**Jun'22**	**Mar'23**
Investment Property	154	154	154	165	165
Short Term Investments	57	65	34	55	201
Net Investment in Leases	2,406	2,365	2,175	2,635	1,941
Total Assets	2,662	2,727	2,421	2,902	2,339
Borrowings	464	389	462	391	250
COI (Deposits)	392	404	191	337	330
Paid Up Capital	254	254	254	254	254
Tier-1 Equity	666	657	675	795	827
Net Worth	759	750	769	888	919
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**9M'FY23**
Net Mark-up Income (excludes finance cost)	148	141	154	165	120
Other Income	18	10	10	22	9
Operating Expenses	79	68	61	64	40
Operating Profit	87	83	103	122	89
(Provisioning Charges)/ Reversal	(16)	(62)	(75)	46	(57)
Profit /(Loss) Before Tax	71	22	28	168	32
Profit /(Loss) After Tax	64	11	25	147	57
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**9M'FY23**
Gross Infection (%)	2.8%	11.5%	11.4%	8.5%	10.6%
Provisioning Coverage (%)	59.6%	36.1%	58.5%	58.3%	85.5%
Net Infection (%)	1.2%	7.6%	5.1%	3.7%	1.7%
Efficiency (%)	47.5%	44.9%	37.2%	34.5%	30.9%
ROAA (%)	2.5%	0.4%	1.0%	5.5%	2.9%
ROAE (%)	8.7%	1.44%	3.2%	17.8%	8.4%
Current Ratio (x)	1.34	1.53	1.29	1.04	1.95

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				
21-Sep-23	A-	A-2	Stable	Reaffirmed
16-May-22	A-	A-2	Stable	Maintained
01-Sep-21	A-	A-2	Negative	Reaffirmed
30-Jun-20	A-	A-2	Stable	Reaffirmed
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information.
Due Diligence Meetings Conducted	

Name	Designation	Date
Mr. Suleman Chaggla	CFO	August 21, 2023
Mr. Muhammad Tahir Karim	Senior Manager Finance	