

## RATING REPORT

## Pak-Gulf Leasing Company Limited (PGLC)

**REPORT DATE:**

December 24, 2024

**RATING ANALYSTS:**Musaddeq Ahmed Khan  
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## RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Rating Outlook/ Rating Watch	Stable		Stable	
Rating Date	December 24, 2024		September 21, 2023	

## 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

<https://docs.vis.com.pk/Methodologies%202024/NBFCs202003.pdf>

## APPLICABLE RATING SCALE(S)

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

**Pak-Gulf Leasing Company Limited (PGLC)**

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>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 Deposit taking Non-Banking Finance Company (NBFC). Financial statements for FY23-24 have been audited by M/S BDO Ebrahim &amp; Company, Chartered Accountants</p> <p><b>Profile of Chairman:</b></p> <p>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 &amp; 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.</p>	<p>The assigned ratings reflect PGLC’s long-standing operational track record as an active leasing company in the contracting domestic leasing sector. The ratings also consider the challenging operating environment faced by privately-sponsored leasing companies, characterized by intense competition with banks and limited access to capital, which constrains opportunities for accelerated growth.</p> <p>The ratings incorporate PGLC’s adequate profitability, stable asset quality indicators, and consistent growth in capitalization metrics. Furthermore, ratings take into account the NBFC’s adequate liquidity profile, which has improved due to sufficient coverage of liabilities by liquid assets.</p> <p><b>Leasing Sector</b></p> <p>Leasing companies in Pakistan operate within a regulatory framework under the Securities and Exchange Commission of Pakistan (SECP), which provides oversight and establishes capital requirements. However, the sector remains susceptible to economic volatility, particularly influenced by inflationary pressures and interest rate fluctuations, which affect borrowing costs and demand for lease financing.</p> <p>During FY24, the sector faced challenges due to high inflation and rising interest rates, constraining leasing companies’ profitability and asset quality. Higher funding costs have impacted margins, while non-performing leases have increased, reflecting borrower strain in a tightening economic environment. Additionally, reliance on concentrated client bases and limited diversification exposes leasing companies to credit risks. While regulatory oversight offers some stability, the sector’s limited resilience to economic shocks and dependency on external funding sources elevate its business risk profile.</p> <p><b>Company Profile</b></p> <p>PGLC is a leasing company operating in the Pakistani leasing sector for over twenty-eight years. Currently, the NBFC operates out of the head office in Karachi and a branch office located in Lahore and is listed on Pakistan Stock Exchange (PSX). The shareholding pattern illustrates that majority interest is held by members of the Unibro Group and its associated companies. Unibro Industries Limited was established in 1987, and along with being involved in commercial sector, they export home-textile products from Pakistan.</p> <p><b>Rating Drivers</b></p>
<p><b>Profile of CEO:</b></p> <p>Mr. Mahfuz-ur-Rehman Pasha served as an Officer of the Inland Revenue Service of the Federal Government of</p>	<p><b>Declining financing portfolio</b></p> <p>Gross financing portfolio of PGLC depicted a declining trajectory during the review period; the same was recorded lower at PKR 1.4b (FY24: PKR 1.5b; FY23: 2.4b) whereas the net financing portfolio was reduced to PKR 1.2b (FY24: PKR 1.3b (FY23: PKR 2.1b) at end-1QFY25; with major decline evidenced in finance leasing and auto-finance loan portfolio. The financing portfolio declined to PKR 1.1b (FY24: PKR 1.2b; FY23: PKR2.0b) due to elevated credit risk stemming</p>

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 National Power Parks Management Company (Private) Limited and House Building Finance Company. Mr. Pasha also served as the Chairman of the NBFIA & Modaraba Association of Pakistan during the two years term ending on October 31, 2024.

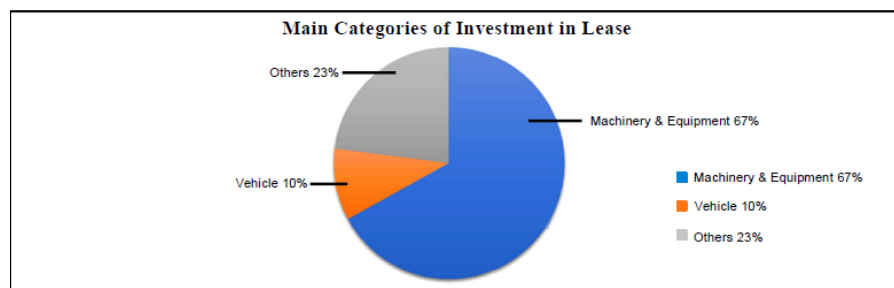
from high borrowing costs driven by high policy rate, inflation, and adverse economic conditions. The Company adopted a cautious approach, extending financing only to clients deemed highly creditworthy. Resultantly, auto-finance loans portfolio reduced on a timeline to PKR 48.8m (FY24: PKR 75.2m; FY23: PKR 133.4m) as escalation in car prices and high benchmark rates resulted in auto finance leasing becoming unaffordable for major target market segments. During the outgoing year, PGLC’s top three sectoral exposure included Individuals (27.32%), Healthcare (13.13%) and Others (27.33%). The other major sectors are Food (7.32%), Electrical goods (6.30%) and Hotels (5.58%). Top 50 client concentration remained on a higher side; the same was recorded at 99.5% (FY24: 97.7%; FY23: 94.7%) by end-1QFY25.

The snapshot of the portfolio is given in table below:

Category	Percentage
Energy, oil and gas	2.1%
Steel, engineering and auto	3.3%
Electrical goods	6.3%
Transport and communication	0.4%
Chemical, fertilizer and pharmaceuticals	2.9%
Textile	0.3%
Food, tobacco and beverage	7.3%
Hotels	5.6%
Construction	1.3%
Health care	13.1%
Advertisement & Publications	1.3%
Services	1.5%
Individuals	27.3%

Lease Disbursement

During FY24, 11 (FY23: 23) finance leases and 2 (FY23: 2) Auto-finance Loans of PKR 108m were written resulting from cautious policy for taking fresh exposure. The net lease disbursement amounted lower to PKR 78m (FY23: 267m) by end-FY24. Geographically, Sindh accounted for the highest disbursements followed by Punjab. The concentration remained in major metropolitan cities like Karachi and Lahore. Corporate clients continued to constitute the major chunk of disbursements with 64% disbursement while the remaining pertained to individuals during FY24. Going forward, disbursement is expected to pace up in line with improvement in overall macro-economic environment including reduction in interest rates and inflation. PGLC is targeting disbursements around PKR 500m-600m for FY25; however current disbursements and net disbursements by end-1QFY25 amount to PKR 3.6m and 1.8m respectively. As per the management, major chunk of leases is normally written during the 4<sup>th</sup> quarter, therefore the current disbursements are low. Moreover, PGLC is not planning to launch any new product during the rating horizon.



**Asset Quality Indicators remains stable**

Non-Performing Loans (NPLs) have decreased to PKR 155.2m (FY24: PKR 180.8m; FY23: PKR 342.8m) by end-1QFY25. Furthermore, loans under litigation remained almost similar at PKR 176.4m (FY24: PKR 176.2m; FY23: PKR 89.8m) by end-1QFY25. The recovery rate for FY24 inched up slightly to 89% (FY23: 87%) during the outgoing year. Moreover, the Diminishing Musharaka portfolio remains fully provided with no recovery made during the review period. Gross infection, remained unchanged at 24.9% (FY24: 24.7%; FY23: 19.9%) owing to a decrease in the NPLs coupled with reduction in portfolio size. Provisioning was recorded at PKR 177.3m (FY24: PKR 180.4m; FY23: PKR 177.7m) whereas provisioning coverage rose to 50.6% (FY24: 48%; FY23: 39.4%) resulting in slight improvement in the net infection ratio to 14.1% (FY24: 14.5%; FY23: 13.5%)

**Improvement in profit after tax has been incorporated in the assigned rating**

The income from financing operations decreased to PKR 218.7m (FY23: PKR 227.3m) in FY24 on account of lower finance income recorded at PKR 201.8m (FY23: 217.4m); the same is attributable to decrease in the net disbursements. On account of increase in funds parked in bank accounts coupled with an increase in the discount rate, the NBFC derived higher income of PKR 43.7m (FY23: PKR 22.5m) during the outgoing year. With a decline in the deposits (COIs) and borrowing, the finance cost was recorded lower at PKR 77.5m (FY23: PKR 89.8m). However, given the increased return on investments and lower finance cost, net interest income of the NBFC improved to PKR 184.9m (FY23: PKR 159.9m; FY22: PKR 164.6m) in FY24. In addition, PGLC's other income rose to PKR 19.0m (FY23: PKR 12.5m; FY22: PKR 21.5m) in FY24, as the NBFC conducted a revaluation exercise for its investment property resulting in an unrealized gain of PKR 5.1m. Despite a higher applicable tax rate of 44.9% (FY23: 28.1%), the profit after tax increased to PKR 78.8m (FY23: PKR 56.6m). A positive trajectory of profit after tax continued during the ongoing year and the NBFC reported net income of PKR 39.8m (1QFY24: PKR 20.2m) with considerable portion of income of the current quarter being derived from investments.

**Ratings factor in PGLC's debt and liquidity profile****Funding & Capitalization**

With improvement manifested in the profitability on a timeline, the NBFC's equity increased to PKR 855.7m (FY24: PKR 815.9m; FY23: PKR 737.5m) by end-1QFY25; the same was reflected in statutory reserves and unappropriated profits. Additionally, a substantial reduction in the debt is witnessed as evidenced by reduction in the long-term and short-term borrowings to PKR 25.0m (FY24: 37.5m; FY23: PKR104.2m) and Nil (FY24: Nil; FY23: PKR 187m) respectively during 1QFY25. Additionally, lease liabilities were recorded at PKR 16m (FY24: PKR 15.0m; FY23: PKR 0.6m). This sizable reduction in the total debt of the NBFC led to an improvement in the gearing ratio to 0.05x (FY24: 0.06x; FY23: 0.40x) during 1QFY25.

The NBFC has two short-term credit facilities to the tune of PKR 300m and PKR 150m with markup amounting to KIBOR+1% and KIBOR+2.5% respectively, both remain unutilized to this date and their utilization relies on reduction in interest rates, which is likely to stimulate the leasing business. In terms of deposit taking, PGLC has issued Certificate of Investments (COIs) amounting to PKR 221m (FY24: PKR 227m; FY23: PKR 341.4m) at end-1QFY25. COIs are issued for periods ranging from 12 months to 36 months and carry markup rates ranging from 15% to 21.75% (FY24: 14.75% to 21.75%) per annum.

### Liquidity

PGLC's liquidity profile is comfortable and has improved during the rating review period as evident from substantial improvement in coverage of liabilities by liquid assets to 52.5% (FY24: 38.0%; FY23: 15.3%). The improvement was primarily underpinned by increase in cash and bank balances to the tune of PKR 488.3m (FY24: PKR 354.9m; FY23: PKR 205.1m). In addition, NBFC was divested from government securities during the outgoing year however, it rose during 1QFY25; the same will positively impact the liquidity of the NBFC going forward. Divested funds were kept as cash and were utilized to pay off the financial obligations.

**Table 1: Liquidity**

LIQUIDITY	FY22	FY23	FY24	1QFY25
<b>Cash &amp; Bank Balances</b>	26.0	205.1	354.9	488.3
<b>Sovereign Securities</b>	51.7	52.8	35.8	41.4
<b>Units of National Investment Trust</b>	3.5	2.7	4.8	4.9
<b>Liquid Assets</b>	81.2	260.6	395.5	534.6
<b>Total Liabilities</b>	2,014.0	1,699.3	1,040.2	1,018.8
<b>Liquid Assets to Liabilities</b>	4.0%	15.3%	38.0%	52.5%

### **Adequate Corporate Governance Framework**

- The Board of Directors (BoDs) comprise ten members including three independent, six non-executive directors and 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-FY24, 5 directors had acquired the required Certificate of Directors Training Course while one is exempted from this requirement.
- A total of 4 BoD meetings were convened during the outgoing year wherein the attendance of members is considered satisfactory. The performance of Board was found to be adequate based on the latest evaluation report.
- Moreover, for effective oversight, the Board has formed five committees including Board Audit Committee (BAC), Human Resource & Remuneration Committee, Internal Credit Committee, Recoveries Management Committee (RMC) and Risk Management Committee.

**Pak-Gulf Leasing Company Limited (PGLC)**

**Appendix 1**

<b>FINANCIAL SUMMARY</b>		<b>(amounts in PKR millions)</b>		
<b>BALANCE SHEET</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>1QFY25</b>
Investment Property	164.7	164.7	169.9	169.9
Cash & Bank balance	26.0	205.1	354.9	488.3
Short Term Investments	55.2	55.6	40.5	46.3
Liquid Assets	81.2	260.7	395.4	534.6
Net Investment in Finance	2,635.0	2,086.7	1,343.1	1,230.1
<b>Total Assets</b>	<b>2,901.9</b>	<b>2,528.8</b>	<b>1,950.5</b>	<b>1,969.1</b>
<b>Borrowings</b>	<b>390.8</b>	<b>291.8</b>	<b>52.5</b>	<b>41.1</b>
<b>COI (Deposits)</b>	<b>337.1</b>	<b>341.4</b>	<b>227.1</b>	<b>221.0</b>
<b>Total Liabilities</b>	<b>2,014.0</b>	<b>1,699.3</b>	<b>1,040.2</b>	<b>1,018.8</b>
<b>Paid Up Capital</b>	<b>253.7</b>	<b>494.7</b>	<b>494.7</b>	<b>494.7</b>
<b>Tier-1 Equity</b>	<b>795.0</b>	<b>737.5</b>	<b>815.9</b>	<b>855.7</b>
<b>Net Worth</b>	<b>887.8</b>	<b>829.5</b>	<b>910.4</b>	<b>950.2</b>
<b>INCOME STATEMENT</b>				
<b>Net Mark-up Income (excludes finance cost)</b>	<b>164.6</b>	<b>159.9</b>	<b>184.9</b>	<b>55.8</b>
<b>Other Income</b>	<b>21.6</b>	<b>12.5</b>	<b>19.0</b>	<b>4.0</b>
<b>Operating Expenses</b>	<b>64.1</b>	<b>52.7</b>	<b>57.6</b>	<b>15.1</b>
<b>Operating Profit</b>	<b>122.0</b>	<b>119.7</b>	<b>146.2</b>	<b>44.6</b>
<b>Provisioning Charges</b>	<b>45.7</b>	<b>(40.9)</b>	<b>(3.2)</b>	<b>3.1</b>
<b>Profit (Loss) Before Tax</b>	<b>167.7</b>	<b>78.8</b>	<b>142.9</b>	<b>47.8</b>
<b>Profit (Loss) After Tax</b>	<b>147.0</b>	<b>56.6</b>	<b>78.8</b>	<b>39.8</b>
<b>RATIO ANALYSIS</b>				
<b>Gross Infection (%)</b>	<b>8.5%</b>	<b>19.2%</b>	<b>23.7%</b>	<b>23.9%</b>
<b>Provisioning Coverage (%)</b>	<b>58.3%</b>	<b>41.1%</b>	<b>50.5%</b>	<b>53.5%</b>
<b>Net Infection (%)</b>	<b>3.7%</b>	<b>12.3%</b>	<b>13.3%</b>	<b>12.7%</b>
<b>Efficiency (%)</b>	<b>27.4%</b>	<b>21.1%</b>	<b>22.0%</b>	<b>21.3%</b>
<b>Liquid assets to liabilities</b>	<b>4.0%</b>	<b>15.3%</b>	<b>38.0%</b>	<b>52.5%</b>
<b>ROAA (%)</b>	<b>5.5%</b>	<b>2.1%</b>	<b>3.5%</b>	<b>2.0%</b>
<b>ROAE (%)</b>	<b>8.7%</b>	<b>6.6%</b>	<b>9.1%</b>	<b>17.1%</b>
<b>Current Ratio (x)</b>	<b>1.04</b>	<b>1.72</b>	<b>2.84</b>	<b>3.17</b>

## REGULATORY DISCLOSURES

## Appendix III

<b>Name of Rated Entity</b>	Pak-Gulf Leasing Company Limited (PGLC)					
<b>Sector</b>	Non-Bank Financial Institution (NBFC)					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Ratings					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook/ Rating Watch</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	24-Dec-24	A-	A2	Stable	Reaffirmed	
	21-Sep-23	A-	A2	Stable	Reaffirmed	
	16-May-22	A-	A2	Stable	Maintained	
	01-Sep-21	A-	A2	Negative	Reaffirmed	
	30-Jun-20	A-	A2	Stable	Reaffirmed	
	22-Apr-19	A-	A2	Stable	Reaffirmed	
	30-Jan-18	A-	A2	Stable	Reaffirmed	
	30-Dec-16	A-	A2	Stable	Reaffirmed	
	27-Nov-15	A-	A2	Stable	Reaffirmed	
	25-Sep-14	A-	A2	Stable	Upgrade	
06-Apr-13	BBB+	A3	Stable	Reaffirmed		
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	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.					
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>		
	Ms. Mehreen Usama	CFO		4-Dec-24		
	Mr. Mahfuz ur Rehman Pasha	CEO				