RATING REPORT

Grays Leasing Limited (GLL)

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BB-	B	BB-	B
Rating Outlook	Stable		Stable	
Rating Date	*01 Dec'15*		*12 Nov'14*	

COMPANY INFORMATION

Incorporated in 1995	**External auditors:** M/s Riaz Ahmad and Co., Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Khawar Anwar Khawaja
Key Shareholders:	**Chief Executive Officer:** Mr. Muhammad Tahir Butt
Grays of Cambridge (Pakistan) Limited – 37.2%	
Anwar Khawaja Industries (Pvt) Limited– 17.4%	
General Public – 23.0%	
Mr. Khurram Anwar Khawaja – 6.4%	
Mr. Khawar Anwar Khawaja – 5.9%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Non-Bank Financial Companies (Mar 2005)*
http://www.jcrvis.com.pk/Images/NBFC.pdf

Grays Leasing Limited (GLL)

OVERVIEW OF THE INSTITUTION

GLL was incorporated as a public limited company in August 1995 and is listed on the Karachi and Lahore Stock Exchanges. The company is engaged in the leasing business and has been classified as a Non-Banking Finance Company (NBFC). GLL has a network of 5 branches including the head office.

RATING RATIONALE

On-going losses for the past several years have resulted in the erosion of the equity base of Grays Leasing Limited (GLL); in the absence of fresh injection of equity, the risk profile of the company stands diminished. GLL's equity is short of the minimum capital requirement (MCR) of Rs. 700m stipulated for Non-Banking Finance Companies (NBFCs) undertaking business of leasing; the shortfall was reported at Rs. 624m at end-1QFY16 .In view of the challenges faced by the NBFCs sector, a reform committee had proposed various revisions in the regulatory framework for NBFCs including lower MCR; further developments in lieu of the regulatory regime are awaited.

Leasing operations of the company remained subdued with focus primarily on recoveries. New lease contracts amounting to Rs. 45.4m (FY14: Rs. 40.9m) were booked during FY15 mainly pertaining to car lease. New clients are mainly referred by directors and management and by pool of existing clients. Asset quality indicators remained stressed with majority of the portfolio being classified. At end-FY15, net NPL's are 1.5 times of tier-1 equity of the company reflecting weak risk absorption capacity.

Net finance income remained flat at Rs. 8.9m during FY15 (FY14: Rs. 8.8m). Income from leasing operations amounted to Rs. 10.4m (FY14: Rs. 8.6m). To fund new lease contracts, company procured additional funding to the tune of Rs. 10m from associate concern. Resultantly, finance cost was reported higher at Rs. 2.1m (FY14: Rs. 1.1m). Loss before tax was reported at Rs. 1.7m as compared to Rs. 0.7m in the previous year. During FY15, company availed tax reversal with profit after tax reported at Rs. 0.1m (FY14: loss of Rs. 1.1m).

Liquidity profile of GLL remained stressed on account of weak portfolio quality and lack of access to market sources of funding. Moreover, the company remained restricted from raising deposits from the general public by the Securities & Exchange Commission of Pakistan (SECP) until regulatory compliance with capital requirements is achieved. GLL remains dependent on the running finance facility provided by associated concern to fund its operations.

Corporate Profile

Grays Leasing Limited (GLL) was incorporated in Pakistan in 1995 as a public limited company under the Companies Ordinance 1984. The company commenced its operations in 1997 and is in the business of leasing vehicles, plant, machinery, etc. GLL is listed on Karachi and Lahore stock exchanges. The company's head office is located in Lahore. Staff strength of the company remained unchanged at 14 personnel at end-FY15.

Majority shareholding is vested with Grays of Cambridge (Pakistan) Limited (GCL) and Anwar Khawaja Industries (Pvt) Limited (AKI) holding 37.21% and 17.39% shareholding, respectively. GCL is involved in manufacturing and export of sports goods while AKI undertakes manufacturing and export of textile, footballs & sportswear. Remaining shareholding is held by general public (23%) and directors (21%).

There are seven members on the Board. The Board comprises five non-executives, CEO and one independent director. During FY15, there was one change in the Board with Mr. Iftikhar Ahmed Butt replacing Mr. Naveed Ahmed Dar as an independent director. Mr. Butt is a retired civil servant with over 30 years of experience in various sectors. Mr. Butt holds a masters degree in Economics.

The Board is chaired by Mr. Khawar Anwar Khawaja who has previously served as the CEO of GCL. Mr. Khawaja is a mechanical engineer by profession and has significant experience in handling administrative, financial and marketing activities. He serves as a Board member of Gujranwala power Supply Company Limited and CEO of Sialkot International Airport Limited and Port Services (Pvt) Limited.

During FY15, 4 Board meetings were convened; barring two directors attendance of all members remained satisfactory. The Board discussed various strategic matters including operational performance, regulatory non-compliance and business development.

There are two committees operational at the Board level; Board Audit Committee (BAC) and Human Resource & Remuneration Committee (HR&RC). During FY15, four meetings of AC and 2 meetings of HR&RC were convened. Discussion in BAC prevailed over comparison of actual versus budgeted performance. The composition of AC was changed during the ongoing year with Mr. Iftikhar Ahmed Butt, the incoming independent director, appointed as the chairman of the BAC inline with the revised Code of Corporate Governance (CCG'12).

Mr. Muhammad Tahir Butt is the CEO of GLL and also holds the position of Director Administrative and Finance functions at GCL and Director of Production at AKI. Mr. Avais Ibrahim is the CFO of the company; Mr. Ibrahim does not meet the qualification requirement stipulated for the CFO in the Code of Corporate Governance.

Financial accounts for FY15 were audited by Riaz Ahmad and Company – the same have been re-appointed for FY15. The financial statements are prepared on the basis of estimated realizable values in addition to historical cost convention.

Financial Analysis[1]

Asset Quality[2]

Total asset base of GLL increased marginally to Rs. 185.1m by end-FY15 (FY14: Rs.179.7m) on account of higher cash and bank balances.Net lease portfolio declined to Rs. 169.8m (FY14: Rs. 173.2m) representing 92% (FY14: 96%) of the total asset base. As of 1Q16, asset base stood at Rs. 181.9m while net leases amounted to Rs. 166.8m.

New lease contracts amounting to Rs. 45.4m (FY14: Rs. 40.9m) were booked during FY15. During the year, a total of 15 lease contracts were booked (FY14: 31); out of which 14 leases pertained to car leases while one contract amounting to Rs. 8m was a

[1] On the basis of net realizable value

[2] Net of lease key money

machinery lease. New clients are referred by directors and management and by pool of existing clients. For appraisal of individual clients, sources of income are verified through salary certificate, bank statement, utility bills and e-CIB report. The equity portion of car leases ranges between 20-50% with average around 30%. During 1QFY16, new lease contracts amounted to Rs. 10.3m.

Leases are mainly concentrated in textile and allied sector represented around one-third of net finance lease followed by individuals (18.8%) and transport/communication (17.5%).

Asset quality indicators remained stressed with majority of the portfolio being classified. Total NPL's reduced marginally to Rs. 277.2m at end-FY15 (FY14: 291.7). As of 1Q16, the same was reported at Rs. 313.0m. Recoveries against NPL amounted to Rs. 10m during FY15 (FY14: 14.4m); given the aging of the overdue portfolio, likelihood of a meaningful recovery from overdue leases is considered limited. With lower NPLs, gross and net infection reduced marginally to 62.3% (FY14: 65.2%) and 40.2% (FY14: 44.6%), respectively. Provisioning coverage stood at 59.3% at end FY15 (FY14: 56.9%).

Capitalization, Funding and Liquidity

Accumulated losses of the company amounted to Rs. 198.3m at end-1QFY16 (FY15: Rs. 199m; FY14: Rs. 199.1m) with equity, adjusted for accumulated losses and statutory reserves, reported at Rs. 76m (FY15: 75.2m; FY14:Rs. 75.1m). The company remains non-compliant with SECP's minimum capital requirement (MCR) of Rs. 700m. Previously, SECP had granted an exemption to GLL for FY11 subject to the condition that the company will not raise new deposits and rollover existing deposits without its prior approval. The exemption expired in July 2011; however, SECP has not stopped GLL from writing new lease business since company's borrowings from banks and certificates of investments (COIs) are nil.

In view of the challenges faced by the NBFCs sector, a reform committee had proposed various revisions in the regulatory framework for NBFCs including lower MCR; further developments in lieu of the regulatory regime are awaited.As per management, the company plans to operate as a non-deposit taking NBFCs under the proposed changes to NBFCs regulations.

With additional short-term funding of Rs. 10m from associated company during FY15, total borrowings increased to Rs. 25m at end-1QFY16 (FY15: Rs.25m; FY14: Rs. 15.0m). As per management, the company may procure additional funding from associated concerns incase there is a requirement.

Lease rentals received during FY15 amounted to Rs. 41m (FY14: Rs. 30.9m). With higher lease rentals received during FY15 as compared to cash outflow of investment in leases and operating expenses, cash and bank balance increased to Rs. 11.5m (FY14: Rs. 1.9m) at end-FY15. Around two-third of the cash was placed in remunerative saving accounts at end-FY15. The below table summarizes the position of liquidity during FY15:

Sources (Rs. m)		Uses (Rs. m)	
		Operating expenses	11.8
Rentals received	41.0	Interest paid	2.4
Lease key money	3.7	Advances	0.16
Sale of assets	-	Taxes	0.38
Others	0.32	Repayment of lease	0.27
Short term loan from associated company	10.0	New leases	28.1
		Others	2.2
Total	**55.0**	**Total**	**45.3**
Opening balance	1.9	Closing balance	11.5
	56.8		**56.8**

Given the erosion in equity base, net NPL's as a proportion of Tier 1 Equity stood at 150% as of end-FY15 (FY14: 167%; FY13: 192%) reflecting a weak risk absorption capacity

Profitability

Income from lease operations amounted to Rs. 10.7m during FY15 as compared to Rs. 9.5m in the preceding year. The lease pricing is done on a 3M-Kibor plus a spread ranging between 4-6%. Income from other sources amounted to Rs. 0.3m (FY14: Rs. 0.7m)

On account of increase in short-term borrowings, finance cost and other charges stood higher at Rs. 2.1mduring FY15 (FY14: Rs. 1.1b). The funding received from associated concern is at a concessional rate of 3-M Kibor. The net finance income of the company was reported at Rs. 8.9m (FY14: Rs. 8.8m during FY15.

Administrative expenses increased by 7.3% during FY15 and amounted to Rs. 12.0m (FY14: Rs. 11.2m) with increase manifested in employee related costs, which amounted to Rs. 5.5m (FY14: Rs. 4.9m). Employee related costs comprise 45.8% (FY14: 43.4%) of the total administrative expenses.

Reversal against potential lease losses amounted to Rs. 1.5m during FY15 (FY14: Rs. 6.6m) with no write-offs made during the year. Loss before tax was reported at Rs. 1.7m as compared to Rs. 0.7m in the previous year. During FY15, company availed tax reversal with profit after tax reported at Rs. 0.1m (FY14: loss of Rs. 1.1m).

During 1QFY16, income from lease operations amounted to Rs. 2.5m while reversal for potential lease losses stood at Rs. 1.1m. The company reported profit after tax of Rs. 0.7m during 1QFY16.

Leasing operations of the company are projected to remain subdued with focus primarily on recoveries. During FY16, the management plans to disburse new leases amounting to Rs. 45m while making recoveries to the tune of Rs. 10m from overdue clients.

Grays Leasing Limited (GLL) Appendix I

FINANCIAL SUMMAR		*(amounts in PKR millions)*	
BALANCE SHEET	**SEP 30, 2015**	**JUN 30, 2014**	**JUN 30, 2013**
Investment in Finance Lease	298.2	299.1	284.4
Total Assets	313.2	305.6	299.4
Borrowings	25.0	15	4.0
Lease Deposit Money	131.3	125.9	128.0
Tier-1 Equity	76.0	75.1	75.3
Net Worth	152.0	156.8	160.7
INCOME STATEMENT	**SEP 31, 2015**	**JUN 30, 2014**	**JUN 30, 2013**
Net Mark-up Income	2.0	8.8	8.3
Net (Provisioning) / Reversal	1.1	6.6	10.6
Operating Expenses	2.3	11.2	10.7
Profit (Loss) Before Tax	0.8	(-0.7)	3.7
Profit (Loss) After Tax	0.7	1.1	3.4
RATIO ANALYSIS	**SEP 31, 2015**	**JUN 30, 2014**	**JUN 30, 2013**
Gross Infection (%)	70.2	65.2	72.9
Provisioning Coverage (%)	52.2	56.9	54.6
Net Infection (%)	53.0	44.6	54.9
Efficiency (%)	53.9	56.1	56.3
ROAA (%)	0.24	-0.36	1.08
ROAE (%)	0.98	-1.43	4.67

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	Grays Leasing Limited
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				
12/01.2015	BB-	B	Stable	Reaffirmed
12/11/2014	BB-	B	Stable	Reaffirmed
10/22/2013	BB-	B	Stable	Maintained
10/2/2012	BB-	B	Negative	Reaffirmed
9/9/2011	BB-	B	Negative	Downgrade

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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