RATING REPORT

Grays Leasing Limited (GLL)

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	BB-	B	BB-	B
Rating Outlook	Stable		Stable	
Rating Action	Reaffirm		Reaffirm	
Rating Date	*December 31'18*		*December 26'17*	

COMPANY INFORMATION	
Incorporated in 1995	**External auditors:** Riaz Ahmad and Company Chartered Accountants
Public Limited Company – Quoted	**Chairman of the Board:** Mr. Khawar Anwar Khawaja **Chief Executive Officer:** Mr. Muhammad Tahir Butt
Key Shareholders (with stake 5% or more):	
GOC (PAK) Limited (Formerly: Grays of Cambridge (Pakistan) Limited) – 37.2%	
Anwar Khawaja Industries (Pvt.) Limited – 17.4%	
General Public – 23.5%	
Mr. Khurram Anwar Khawaja – 6.4%	
Mr. Khawar Anwar Khawaja – 5.9%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria: Industrial Corporates (May 2016)
http://www.jcrvis.com.pk/kc-meth.aspx

Grays Leasing Limited (GLL)

RATING RATIONALE

Grays Leasing Limited (GLL) is engaged in leasing business and is classified as a Non-Baking Finance Company (NBFC). Majority shareholding of GLL is vested with the GOC (PAK) Limited and Anwar Khawaja Industries (Pvt.) Limited (AKIL). The assigned ratings take into limited scale, scope, and diversity of leasing operations amidst lack of sufficient funding and a chronic portfolio of non-performing leases against which recoveries have lately remained abysmal. Albeit to a small extent, the company continues to withdraw funding support from its associated concern and the Chief Executive Officer (CEO). Meanwhile, GLL has limited its scope of leasing operations to auto leasing only. The ratings also factor in inadequate capitalization and weak liquidity position of the company due to continued losses.

Rating Drivers

Lower profitability indicators

Income from lease operations was reported slightly lower at Rs. 9.4m (FY17: Rs. 10.1m), whereas other income amounted to Rs. 0.5m. Administration expenses and financial charges stood slightly higher at Rs. 12m and Rs. 2.8m (FY17: Rs. 11.2m and Rs. 2.4m), respectively. The company also recorded relatively higher tax expense of Rs. 1.7m during the year (FY17: Rs. 0.5m) owing to a prior year tax charge of Rs. 1.0m. Resultantly, loss after tax for the year increased to Rs. (4.4m) as compared a loss after tax of Rs. (1.0m) in FY17. During FY19, the management is expecting a reversal of Rs. 20m against recovery from the delinquent portfolio, which would help in improving profitability indicators to a certain extent, going forward.

Asset quality indicators remain stressed

Net investment in lease finance – net off provision increased slightly to Rs. 264.5m by end-FY18 (FY17: Rs. 261.9m) on account of higher guaranteed residual value of leased assets and a reversal of provision of Rs. 2.2m (FY17: Rs. 2.3m), offsetting marginal decline in lease rentals receivable. Meanwhile, net lease portfolio decreased modestly to Rs. 111.4m (FY17: Rs. 113.5m) owing to higher deposits on lease contracts which amounted Rs. 153.1m (FY17: Rs. 148.4m). Total asset base (net off lease key money) amounted to Rs. 119.0m at end-FY18 (FY17: Rs. 120.1m), resulting in net lease portfolio to total asset base ratio of 93.6% (FY17: 94.5%).

Asset quality indicators remained stressed, with majority of the portfolio being classified. Total non-performing leases (NPLs) improved marginally to Rs. 231.8m (FY17: Rs. 234.9m) due to slow recoveries of old leases. However, the company has been receiving timely payments for the new leases extended in the recent years. Gross infection improved slightly to 47.9% by end-FY18 (FY17: 48.7%). Outstanding provisioning decreased to Rs. 156.6m (FY17: Rs. 158.7m) with the reversal of provision for potential lease losses during the year. Net infection stood at 23.0% (FY17: 23.5%) while provisioning coverage remained unchanged at 67.5%.

Continued support from sponsors and a material expected recovery may help attain higher lease disbursements

Paid up capital of the company remained unchanged at Rs. 215m. The equity base stood lower at Rs. 69.2m by end-FY18 (FY17: Rs. 73.8m), though is higher than the minimum equity requirement of Rs. 50m stipulated for non-deposit taking NBFCs. Consequently, the net NPLs to equity ratio deteriorated to 109% (FY17: 103%). The company has arranged a credit facility of Rs. 10m from the CEO, carrying a markup of 3-month KIBOR and is repayable on demand. Another credit facility of Rs. 65m has been arranged from AKIL and carries a markup of 3-month KIBOR. Outstanding balance of loan from related parties increased to at Rs. 42.5m by end-FY18 (FY17: Rs. 40.0m).

During FY18, GLL received lease rentals and lease key money payments of worth Rs. 56.2m and 16.6m respectively. Additionally, the company also availed a short-term credit facility of Rs. 17.0m from the sponsors to support its operations, though repaid Rs. 14.5m at the end of FY18. On the contrary, GLL disbursed Rs. 57.2m for the new leases during FY18 (FY17: Rs. 79.5m), representing a decline of 28% owing to decreased in number of lease contracts to 28 (FY17: 33). The company remained focused on auto lease and entered into a lease term of mostly 3 years (4 to 5 years in some cases) mainly with the

OVERVIEW OF THE INSTITUTION

GLL was incorporated as a public limited company in August 1995 and is listed on the Pakistan Stock Exchange (PSX). The company is engaged in the leasing business and is classified as a non-deposit taking non-banking finance company. GLL has a network of 5 branches including the head office.

Profile of the Chairman

Mr. Khawar Anwar Khawaja has been associated with GOC (PAK) Limited (Formerly: Grays of Cambridge (Pakistan) Limited) since 1990 and is still serving as the CEO of the company. He also serves as a board member of Anwar Khawaja Industries (Pvt) Limited (AKIL).

Profile of the CEO

Mr. Muhammad Tahir Butt has been serving as a Director – Administration and Finance in GOC (PAK) Limited since 1987. He is also a board member at AKIL.

Financial Snapshot

Net equity: 1Q19-Rs.69.2m, FY18-Rs.69.4m, FY17-Rs. 73.8

Net Loss: 1Q19-Rs. (0.13)m, FY18-Rs. (4.4)m, FY17-Rs. (0.9)m individual customers. Resultantly, the share of personal leases increased to 20.8% (FY17: 19.7%), where net lease exposure to textile & allied products and transportation & communication sectors declined to 27.3% (FY17: 28.5%) and 15.9% (FY17: 16.1%), respectively.

Cash in hand stood slightly higher at Rs. 4.3m (FY17: Rs. 3.0m) by end-FY18. As per the management, it has availed a credit facility of Rs. 10m from the sponsors at the beginning of FY19. Additionally, GLL is expecting to receive lease rentals of Rs. 75.0m and lease key money of Rs. 17.0m during FY19. Going forward, growth in disbursement will be primarily depended on the outcome of the ongoing case in the Honorable Lahore High Court.

Grays Leasing Limited (GLL) — Annexure I

FINANCIAL SUMMARY *(amount in PKR millions)*			
BALANCE SHEET	**FY16**	**FY17**	**FY18**
Investment in Finance Lease (net)	239.9	261.9	264.5
Total Assets	248	268.5	272.1
Borrowings	25	40.0	42.5
Lease Deposit Money	138.6	148.4	153.1
Tier-1 Equity	74.6	73.8	69.4
Net Worth	74.6	73.8	69.4
INCOME STATEMENT	**FY16**	**FY17**	**FY18**
Net Mark-up Income	8	8	6.4
Net (Provisioning) / Reversal	3.4	2.3	2.2
Operating Expenses	11.4	11.2	12.0
Profit (Loss) Before Tax	0.2	(0.4)	(2.7)
Profit (Loss) After Tax	(0.7)	(0.9)	(4.4)
RATIO ANALYSIS	**FY16**	**FY17**	**FY18**
Gross Infection (%)	51.6	48.7	47.9
Provisioning Coverage (%)	67.7	67.6	67.5
Net Infection (%)	25.6	23.5	23.0
Efficiency (%)	54.0	52.7	56.0
ROAA (%)	(0.3)	(0.4)	(1.6)
ROAE (%)	(0.9)	(1.2)	(6.1)

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Annexure 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				
12/31/2018	BB-	B	Stable	Reaffirmed
12/26/2017	BB-	B	Stable	Reaffirmed
11/09/2016	BB-	B	Stable	Reaffirmed
12/01/2015	BB-	B	Stable	Reaffirmed
12/11/2014	BB-	B	Stable	Reaffirmed
10/22/2013	BB-	B	Stable	Maintained
10/02/2012	BB-	B	Negative	Reaffirmed
09/09/2011	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.
Probability of Default	JCR-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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