RATING REPORT

Grays Leasing Limited (GLL)

REPORT DATE:
January 20, 2019

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 10'19*		*December 31'18*	

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)
VIS Entity Rating Criteria: Industrial Corporates (May 2019) **https://www.vis.com.pk/kc-meth.aspx**

Grays Leasing Limited (GLL)

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: FY19-Rs.67.5m, FY18-Rs.69.4m, FY17-Rs. 73.8

Net Loss: FY19-Rs. (1.9)m, FY18-Rs. (4.4)m, FY17-Rs. (0.9)m

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). Ratings assigned to GLL take into account its weak financial risk profile; the company continues to face challenges of low business volume, limited funding avenues and chronic legacy portfolio of non-performing leases against which recoveries have lately remained minimal; a large part of the same has also remained un-provided. Albeit to a small extent, the company continues to withdraw funding support from its associated concern and the Chief Executive Officer (CEO). The ratings reflect lack of diversity of leasing operations with leasing activities only diverted towards auto leasing. 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 recorded slightly higher at Rs. 14.0m (FY18: Rs. 9.4m) on account of higher lease contracts signed during the outgoing year. As per the management, the company inked 26 (FY18: 23) new car leasing contracts during FY19. In line with the limited risk absorption capacity, the company has restricted itself to servicing car lease arrangements rather than indulging in capital expenditure contacts. Primarily the company's main prerogative is recovery of lease losses with subdued focus on leasing operations. Further, other income was reported slightly higher at Rs. 0.9m (FY18: 0.5m) as an outcome of higher processing fee earned owing to more number of contacts signed. As a result, net finance income increased to Rs. 11.0m (FY18: Rs. 6.4m) during FY19; however the same was not sufficient to cover its administrative expenses which increased slightly to Rs. 12.4m (FY18: Rs. 12.4m) due to inflationary pressure on employee related expenditures. Moreover, GLL booked provisioning against potential lease losses amounting to Rs. 1.0m during FY19 as compared to reversal of Rs. 2.2m in the preceding year; however, the same was slightly off set by relatively improved scale of operations so the company reported net loss of Rs. 1.9m during FY19 in contrast to net loss of Rs. 4.4m in the previous year. During FY20, the management is expecting a reversal of Rs. 9.0m 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. 278.3m by end-FY19 (FY18: Rs. 264.5m) on account of higher guaranteed residual value of leased assets coupled with increase in lease rentals receivable offsetting the impact of marginally higher provisioning for lease losses. Subsequently, net lease portfolio increased modestly to Rs. 278.3m (FY18: Rs. 264.5m) owing to higher deposits on lease contracts which amounted Rs. 159.8m (FY18: Rs. 153.1m). Further, total asset base (net off lease key money) stood higher at Rs. 132.8m at end-FY19 (FY18: Rs. 119.0m), resulting in net lease portfolio to total asset base ratio of 89.3% (FY18: 93.6%).

Asset quality indicators remained stressed, with majority of the portfolio being classified. Total non-performing leases (NPLs) improved marginally to Rs. 223.8m (FY18: Rs. 231.8m) due to recoveries of old leases coupled with overall increase in gross portfolio. During FY19, a delinquent client owing a total sum Rs. 20m settled around Rs. 10.0m during the outgoing year. Moreover, the company has been receiving timely payments for the new leases extended in the recent years. Therefore, gross infection improved slightly to 44.3% (FY18: 47.9%) by end-FY19. Outstanding provisioning largely remained stagnant at Rs. 157.6m (FY18: Rs. 156.6m); however provisioning coverage and net infection depicted improvement to 70.4% (FY18: 67.5%) and 19.1% (FY18: 23.0%) respectively as an outcome of reduced non-performing portfolio at end-FY19. The company has no outstanding receivables for over five years.

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

Liquidity profile of GLL remained stressed due to weak portfolio quality and lack of funding avenues available. Equity base has eroded in the recent years owing to continued losses. In the absence of fresh equity, net NPLs as a proportion of Tier 1 Equity, albeit improved on timeline basis, remains sizeable. Paid up capital of the company remained unchanged at Rs. 215.0m. The equity base stood lower at Rs. 67.4m (FY18: Rs. 69.2m) by end-FY18, though is higher than the minimum equity requirement of Rs. 50m stipulated for non-deposit taking NBFCs. 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. The facility was to be repaid in November' 19; however it has been renewed for another year. Outstanding balance of loan from related parties increased to at Rs. 57.5m (FY18: Rs. 42.5m) by end-FY19. Cash in hand stood higher at Rs. 10.5m (FY18: Rs. 4.3m) by end-FY19.

During FY18, GLL received lease rentals and lease key money payments of worth Rs. 67.4 (FY18: Rs. 56.2m) and Rs. 20.4m (FY18: 16.6m) respectively. Going forward, the company projects to receive lease rentals and lease key money amounting to Rs. 85.0m and Rs. 24.0m during FY20. On the other hand, GLL disbursed Rs. 78.1m (FY18: Rs. 57.2m) for the new leases during FY19 owing to an increase in number of contracts coupled with price appreciation in the motor industry. 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 to corporate customers. The leasing portfolio mix largely remained unchanged with share of personal leases recorded at 20.4 %(FY18: 20.8%); moreover, net lease exposure to textile & allied products declined to 25.7% (FY18: 27.3%), meanwhile exposure in transportation & communication sectors increased to 18.6% (FY18: 15.9%) during FY19.

Grays Leasing Limited (GLL) Annexure I

FINANCIAL SUMMARY *(amount in PKR millions)*				
BALANCE SHEET	**FY16**	**FY17**	**FY18**	**FY19**
Investment in Finance Lease (net)	239.9	261.9	264.5	278.3
Total Assets	248	268.5	272.1	292.5
Borrowings	25	40.0	42.5	57.5
Lease Deposit Money	138.6	148.4	153.1	159.7
Tier-1 Equity	74.6	73.8	69.4	67.5
Paid Up Capital	215.0	215.0	215.0	215.0
Net Worth	74.6	73.8	69.4	67.5
INCOME STATEMENT	**FY16**	**FY17**	**FY18**	**FY19**
Revenue	10.2	10.9	9.9	14.9
Net Mark-up Income	8	8	6.4	11.0
Net (Provisioning) / Reversal	3.4	2.3	2.2	(1.0)
Operating Expenses	11.4	11.2	12.0	12.4
Profit (Loss) Before Tax	0.2	(0.4)	(2.7)	(1.2)
Profit (Loss) After Tax	(0.7)	(0.9)	(4.4)	(1.9)
RATIO ANALYSIS	**FY16**	**FY17**	**FY18**	**FY19**
Gross Infection (%)	51.6	48.7	47.9	44.3
Provisioning Coverage (%)	67.7	67.6	67.5	70.4
Net Infection (%)	25.6	23.5	23.0	19.1
Efficiency (%)	54.0	52.7	56.0	46.8
ROAA (%)	(0.3)	(0.4)	(1.6)	(0.7)
ROAE (%)	(0.9)	(1.2)	(6.1)	(2.7)
Current Ratio (x)	1.32	1.21	1.16	1.08
Debt to Equity Ratio (x)	0.34	0.54	0.61	0.85
Net NPLs to Equity (%)	103	103	109	98

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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	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				
	12/10/2019	BB-	B	Stable	Reaffirmed
	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	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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Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**	
	1	Mr. Ovais Ibrahim	CFO	05-Nov-2019	