RATING REPORT

Grays Leasing Limited (GLL)

REPORT DATE:
December 30, 2020

RATING ANALYSTS:
Maham Qasim
maham.qasim@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	BB-	B	BB-	B
Rating Outlook	Stable		Stable	
Rating Action	Reaffirm		Reaffirm	
Rating Date	*December 30'20*		*December 10'19*	

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: Non-Bank Financial Companies (March 2020)
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: 1QFY21: Rs. 64.5m; FY20: Rs. 63.7m; FY19-Rs.67.5m, FY18-Rs.69.4m

Net Profit/(Loss): 1QFY21: Rs. 0.7m;

RATING RATIONALE

Ratings assigned to Grays Leasing Limited (GLL) take into account its weak financial risk profile; the company continues to face challenges of low business volume, limited funding resources and chronic legacy portfolio of non-performing leases against which recoveries have lately remained nominal; a large part of the same has also remained un-provided. The company continues to withdraw funding support from its associated concern and the Chief Executive Officer (CEO); the conversion of sponsor loan to interest-free loan is projected to bode well for the profitability of the company. Further, 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. Going forward, the oncoming pandemic-induced headwinds are expected to test the portfolio asset quality. The operating environment, therefore, remains uncertain and VIS will continue to closely monitor the company's performance.

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).

Rating Drivers

Suppressed profitability owing to high financial cost: Income from lease operations was recorded higher at Rs. 17.0m (FY19: Rs. 14.0m) on account of elevated average benchmark rates. Although the company signed fewer contacts, 21 (FY19: 26) during FY20 the same contributed higher revenue as prices of cars increased exponentially prior to onslaught of COVID-19. As per the management the average leasing ticket size for the company increased to around Rs. 2.5m from Rs. 2.3m during the period under review. 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 objective is recovery of lease losses with subdued focus on leasing operations. Further, other income was reported slightly higher at Rs. 1.9m (FY19: 0.9m) as a result of higher profit received on bank deposits owing to increased policy rate. On the other hand, net finance income decreased to Rs. 9.8m (FY19: Rs. 11.0m) during FY20 as a result of high financial expense; hence the same was not sufficient to cover its administrative expenses which increased slightly to Rs. 13.3m (FY19: Rs. 12.4m) due to inflationary pressure on employee related expenditures. Moreover, GLL booked provisioning against potential lease losses amounting to Rs. 1.5m (FY19: Rs. 1.0m) during FY20. Despite slightly improved topline, the company reported higher net loss of Rs. 3.9m during FY20 in contrast to net loss of Rs. 1.9m in the preceding year on account of higher finance cost incurred. During FY21, the management is expecting a reversal of Rs. 4.5m against recovery from the delinquent portfolio, which would help in improving profitability indicators to a certain extent, going forward.

The management has projected to close FY21 at a total revenue of Rs. 21.0m; the company is in sync with its target as topline was reported at Rs. 4.9m at 1QFY21. Meanwhile, the net mark-up revenue improved to Rs. 3.7m during 1QFY21 as compared to Rs. 2.9m in the corresponding quarter last year owing to decline in the financial expenses borne by the company. No potential lease losses were booked during the period. As a result, GLL was able to close 1QFY21 with a profit 0.7m (1QFY19: Rs. 0.2m). Going forward, finance cost is expected to be eliminated completely owing to the decision by the sponsor to withdraw interest charged on sponsor loan; the same is expected to be implemented by end-Oct'20.

FY20: (3.9)m; FY19-Rs. (1.9)m, FY18-Rs. (4.4)m

Weak asset quality indicators: Net investment in lease finance – net off provision increased slightly to Rs. 304.7m (FY20: Rs. 274.2m; FY19: Rs. 278.3m) by end-1QFY21 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 to Rs. 126.6m (FY20: Rs. 112.8m; FY19: Rs. 118.6m) owing to higher deposits on lease contracts which amounted to Rs. 178.1m (FY20: Rs. 161.4m; FY19: Rs. 159.7m) owing to higher value of lease contracts written during 1QFY21. In addition, total asset base (net off lease key money) stood higher at Rs. 140.8m at end-1QFY21 (FY20: Rs. 136.1m; FY19: Rs. 132.8m), resulting in net lease portfolio to total asset base ratio of 89.9% (FY20: 82.8%; FY19: 89.3%).

Asset quality indicators remained stressed, with majority of the portfolio being classified. Total non-performing leases (NPLs) improved marginally to Rs. 218.6m (FY20: Rs. 221.4m; FY19: Rs. 223.8m) due to recoveries of old leases. During FY20, recovery from a delinquent client was made to the tune of Rs. 4.0m. Further, the company has been receiving timely payments for the new leases extended in the recent years. However, during the ongoing pandemic crisis and extension given by SECP to allow for delay of principal payments for one year to clients; two of the company's clients have demanded extension. The same is expected to delay the impact of non-payment on portfolio asset quality indicators. Therefore, gross infection improved slightly to 40.9% (FY20:44.1%; FY19: 44.3%) by end-1QFY21 owing to combined impact of decline in npls along with growth in gross leasing portfolio. Outstanding provisioning largely remained stagnant, increasing slightly to Rs. 159.1m (FY20: Rs. 159.1m; FY19: Rs. 157.6m); the same resulted in improvement of provisioning coverage and net infection to 72.8% (FY20: 71.9%; FY19: 70.4%) and 15.9% (FY20: 18.1%; FY18: 19.1%) respectively as an outcome of reduced non-performing portfolio at end-1QFY21. The company has no outstanding receivables for over five years.

Continued support from sponsors; the sponsor loan to be re-structured as interest free: 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 further declined to Rs. 64.5m (FY20: Rs. 63.7m; FY19: Rs. 67.5m) by end-1QDY21, though is still 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 6-month KIBOR and is repayable on demand. Another credit facility of Rs. 65m has been arranged from AKIL and carries a markup of 6-month KIBOR. The facility against which Rs. 62.5m (FY20: Rs. 52.5m; FY19: Rs. 52.5m) has been obtained at end-1QFY21 was to be repaid in November' 20; however it has been renewed for another year. The facility is expected to be remain vested in the company for the long-term; moreover, the sponsors have decided to completely cut interest charge on the facility assisting GLL to operate on interest-free debt to improve profitability indicators. Furthermore, cash in hand stood at Rs. 7.6m (FY20: Rs. 17.1m; FY18: Rs. 10.5m) at end-1QFY21.

GLL disbursed Rs. 52.8 m (FY19: Rs. 80.2m) for the new leases during FY20 on account of decline in number of contracts written in line with depressed macro-economic conditions owing to onslaught of COVID-19 pandemic. 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 individual customers. The leasing portfolio mix largely remained unchanged with share of personal leases recorded at 22.4 %(FY19: 20.4%); moreover, net lease exposure to textile & allied products and services sector increased to 27.9% (FY19: 25.7%) and 12.8% (FY19: 10.0%), meanwhile exposure to individuals reduced to 19.8% (FY19: 25.9%) during FY20. Going forward, the sponsors do consider the company as going concern; however, implicit support from sponsors in terms of equity injection is not planned in the current state of the company. As per the management, the plan to change the company into an Islamic counterpart, Modaraba, has been put forward by the owners; however, no final decision on the conversion has yet been reached.

Grays Leasing Limited (GLL) Annexure I

FINANCIAL SUMMARY *(amount in PKR millions)*				
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**1QFY21**
Investment in Finance Lease (net)	264.5	278.3	274.2	304.7
Total Assets	272.1	292.5	297.5	318.9
Borrowings	42.5	57.5	57.5	62.5
Lease Deposit Money	153.1	159.7	161.4	178.1
Tier-1 Equity	69.4	67.5	63.7	64.5
Paid Up Capital	215.0	215.0	215.0	215.0
Net Worth	69.4	67.5	63.7	64.5
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**1QFY21**
Revenue	9.9	14.9	18.9	4.9
Net Mark-up Income	6.4	11.0	9.8	3.7
Net (Provisioning) / Reversal	2.2	(1.0)	(1.5)	0
Operating Expenses	12.0	12.4	13.3	2.7
Profit (Loss) Before Tax	(2.7)	(1.2)	(2.9)	1.0
Profit (Loss) After Tax	(4.4)	(1.9)	(3.9)	0.7
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**1QFY21**
Gross Infection (%)	47.9	44.3	44.1	40.9
Provisioning Coverage (%)	67.5	70.4	71.9	72.8
Net Infection (%)	23.0	19.1	18.1	15.9
Efficiency (%)	56.0	46.8	43.8	37.3
ROAA (%)	(1.6)	(0.7)	(1.0)	0.23
ROAE (%)	(6.1)	(2.7)	(4.4)	1.1
Current Ratio (x)	1.16	1.08	1.07	1.04
Debt to Equity Ratio (x)	0.61	0.85	0.90	0.97
Net NPLs to Equity (%)	109	98	98	92

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					
	12/30/2020	BB-	B	Stable	Reaffirmed	
	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.					
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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.					
Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**		
	1	Mr. Ovais Ibrahim	CFO	24-Dec-2020		