RATING REPORT

Grays Leasing Limited (GLL)

REPORT DATE:
December 03, 2021

RATING ANALYSTS:
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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 03'21*		*December 30'20*	

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: 1QFY22: Rs. 63.1m; FY21: Rs.62.1m; FY20: Rs. 63.7m; FY19-Rs.67.5m

Net Profit/(Loss): 1QFY22: Rs. 1.0m; FY21: (1.6)m; FY20:

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. The company continues to withdraw funding support from its associated concern and the Chief Executive Officer (CEO). The sponsor loan was converted to interest-free loan during the period under review; the same resulted in sizable reduction of the financial expense borne by 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. On the other hand, the business risk profile slightly improved owing to low policy rate scenario prevalent making environment for auto-leasing more conducive; the same reflected positively on the value of business transacted during the outgoing year. However, the same was not adequate to serve as a turning point for the company. In addition, the ratings also incorporate qualified opinion of auditors involving non-fulfilment of requirement of recording allowance for lease losses as per expected credit loss model of IFRS-9. 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

Revenues remained stagnant: Despite the number of contracts signed increasing to 34 (FY20: 21) during the outgoing year, the income from lease operations was recorded slightly lower at Rs. 16.4m (FY20: Rs. 17.0m) on account of reduction in average benchmark rates. GLL transacted business worth Rs.132.9m (FY20: Rs.52.8m) during FY21 with average leasing ticket size increasing to Rs. 3.7m as opposed to Rs. 2.5m in the preceding year; the higher ticket size was an outcome of increase in car prices stemming from inflationary impact coupled with entry of high-end variants involving Hyundai, MG, Kia etc. 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 higher at Rs. 2.3m (FY20: 1.9m) in line with higher processing fee booked owing to servicing of higher number of lease contracts during FY21. On the other hand, net finance income increased to Rs. 14.6m (FY20: Rs. 9.8m) during FY21 as a result of exponential reduction in financial expense owing to the decision by the sponsor to withdraw interest charged on sponsor loan; the same was implemented by end-Oct'20. The administrative expenses increased slightly to Rs. 13.7m (FY20: Rs. 13.3m) due to inflationary pressure on employee related expenditures. Moreover, owing to reversal against written off leases amounting to Rs. 1.2m, GLL booked net reversal of Rs. 0.9m during FY21 as compared to provisioning expense incurred of Rs. 1.5m during the previous year. In line with improved topline and rationalized financial expense, the company reported profit before tax of Rs. 4.5m during FY21 in contrast to loss before taxation of Rs. 2.9m in the preceding year. However, due to sizable tax adjustment made for losses and minimum tax during the outgoing year, the company yet again recorded negative bottom line of Rs. 1.6m during FY21. The management

(3.9) m; FY19-Rs. (1.9) m

is expecting a reversal of Rs. 2.5m 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 FY22 with a similar revenue as of FY21 at Rs. 19.0m; the company is largely in sync with its target as topline was reported at Rs. 4.4m during 1QFY22. Subsequently, GLL's net mark-up revenue was recorded at Rs. 3.3m during 1QFY22 as opposed to Rs. 3.7m during 1QFY21; the new number of contracts written during the ongoing year stood at 11. No potential lease losses were booked while the company recorded minimal recovery during 1QFY22. As a result, GLL was able to close 1QFY22 with a relatively higher profit of 1.0m (1QFY20: Rs. 0.7m). The company during the review period has maintained relation-based lending with leases extended to people known by the sponsors of the company. As per the management, the same strategy is going to prevail during the rating review period given the company has no marketing department operational along with restricted access to funds for lending.

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 24.9% (FY20: 22.4%); moreover, net lease exposure to textile & allied products and services sector decreased to 22.0% (FY20: 27.9%) and 5.8% (FY20: 12.8%), meanwhile exposure to individuals increased to 30.1% (FY20: 19.8%) during FY21. Going forward, the sponsors do consider the company as going concern; however, implicit support from sponsors in terms of equity injection is required to keep the company afloat. As per the management, either the sponsors would inject equity so that the company can acquire experienced human resource and implement proper internal controls or sell it in the ongoing year. However, no final timeline for exercising any of the options has been decided.

Further, the auditors have stated that allowance for potential lease losses is made in accordance with the criteria for classification and provisioning of the Non-Banking Finance Companies, 2008 instead of Expected Credit Loss (ECL) Model of IFRS-9. Currently, the management is working on development of ECL model and hopeful that from next financial year allowance for potential lease losses will be calculated using ECL model. In addition, the renewal of leasing license is expected in May'2022.

Weak asset quality indicators: Net investment in lease finance – net off provision increased to Rs. 310.3m (FY21: Rs. 306.3m, FY20: Rs. 274.2m) by end-1QFY22 owing to higher guaranteed residual value of leased assets coupled with increase in lease rentals receivable; the same was a function of increased business written during the rating review period. On the other hand, the allowance for potential lease losses largely remained unchanged during the period under review. Subsequently, net lease portfolio increased to Rs. 122.3m (FY21; Rs. 117.7m; FY20: Rs. 112.8m) owing to deposits on lease contracts increasing on a timeline basis to Rs. 188.0m (FY21: Rs. 188.6m FY20: Rs. 161.4m) at-end-1QFY22; the increase was primarily a reason of higher value of lease contracts written during FY21.The total asset base (net off lease key money) largely remained stagnant at Rs. 135.9m at end-1QFY22 (FY21: Rs. 134.9m FY20: Rs. 136.1m), therefore an increasing trend was witnessed in net lease portfolio to total asset base ratio with the same reported higher at 90.0% (FY21: 87.3; FY20: 82.8%) at end-1QFY22.

Asset quality indicators remained stressed, with majority of the portfolio being classified. Total non-performing leases (NPLs) improved marginally to Rs. 210.3m (FY21: Rs. 212.1m, FY20: Rs. 221.4m) due to recoveries of old leases along with write-off made against provision. As per the management, the entire delinquent legacy portfolio has been provided while the company has been receiving timely payments for the new leases extended in the recent years. With the onslaught of pandemic and extension given by SECP to allow for delay of principal payments for one year to clients; two of the company's clients demanded extension; however, both accounts are regular now. As a result, gross infection improved to 39.1% (FY21: 39.9%; FY20:44.1%) by end-1QFY22 owing to combined impact of decline in npls along with growth in gross leasing portfolio. Outstanding provisioning largely remained stagnant, decreasing slightly to Rs. 158.1m (FY21: Rs. 158.2m; FY20: Rs. 159.1m) by end-1QFY22. Subsequently, provisioning coverage and net infection improved to 75.2% (FY21:74.6%; FY20: 71.9%) and 13.7% (FY21: 14.4%; FY20: 18.1%) respectively primarily as an outcome of reduced non-performing portfolio at end-1QFY22. The company has no outstanding receivables for over five years.

Continued support from sponsors; the sponsor loan was 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; however, the same was curtailed during the ongoing year with net profit of Rs. 1.0m reported during 1QFY21. In the absence of fresh equity, net NPLs as a proportion of Tier 1 Equity, albeit improved on timeline basis, remain sizeable. Paid up capital of the company remained unchanged at Rs. 215.0m. The equity base was recorded at Rs. 63.1m (FY21: Rs. 62.1m; FY20: Rs. 63.7m) by end-1QFY22; the same remains higher than the minimum equity requirement of Rs. 50m stipulated for non-deposit taking NBFCs. The company has arranged a credit facility of Rs. 10.0m from the CEO, carrying a markup of 6-month KIBOR and is repayable within a year. Another interest-free credit facility of Rs. 65m has been arranged from AKIL; the facility against which Rs. 50.0m (FY20: Rs. 50.0m; FY20: Rs. 52.5m) was obtained by end-1QFY22 is to be repaid on 30th June' 22. However, as per the management in line with ongoing practice the facility is expected to be remain vested in the company for long-term period. Furthermore, cash in hand stood at Rs. 8.9m (FY21: Rs. 12.9m; FY20: Rs. 17.1m) at end-1QFY22.

Grays Leasing Limited (GLL) Annexure I

FINANCIAL SUMMARY *(amount in PKR millions)*					
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**1QFY22**
Investment in Finance Lease (net)	264.5	278.3	274.2	306.3	310.3
Total Assets	272.1	292.5	297.5	323.5	323.9
Borrowings	42.5	57.5	57.5	60.0	60.0
Lease Deposit Money	153.1	159.7	161.4	188.6	188.0
Tier-1 Equity	69.4	67.5	63.7	62.1	63.1
Paid Up Capital	215.0	215.0	215.0	215.0	215.0
Net Worth	69.4	67.5	63.7	62.1	63.1
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**1QFY22**
Revenue	9.9	14.9	18.9	18.7	4.4
Net Mark-up Income	6.4	11.0	9.8	14.6	3.3
Net (Provisioning) / Reversal	2.2	(1.0)	(1.5)	0.9	0.04
Operating Expenses	12.0	12.4	13.3	13.7	2.8
Profit (Loss) Before Tax	(2.7)	(1.2)	(2.9)	4.5	1.4
Profit (Loss) After Tax	(4.4)	(1.9)	(3.9)	(1.6)	1.0
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**QFY22**
Gross Infection (%)	47.9	44.3	44.1	39.9	39.1
Provisioning Coverage (%)	67.5	70.4	71.9	74.6	75.2
Net Infection (%)	23.0	19.1	18.1	14.4	13.7
Efficiency (%)	56.0	46.8	43.8	45.5	44.9
ROAA (%)	-	-	-	-	0.3
ROAE (%)	-	-	-	-	1.6
Current Ratio (x)	1.16	1.08	1.07	1.03	1.12
Debt to Equity Ratio (x)	0.61	0.85	0.90	0.97	0.95
Net NPLs to Equity (%)	108.5	98.2	97.7	86.8	82.7

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.
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Due Diligence Meetings Conducted		Name	Designation	Date
	1	Mr. Faisal	Acting CFO	29-Nov-2021