RATING REPORT

Sindh Leasing Company Limited

REPORT DATE:
June 20, 2017

RATING ANALYST:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Outlook Date	*Jun 20, 2017*		*Jun 27, 2016*	

COMPANY INFORMATION

Incorporated in 2013	**External auditors:** BDO Ebrahim & Co. Chartered Accountants
Non-Banking Finance Company	**Chairman of the Board:** Mr. Muhammad Imran Malik
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Bilal Sheikh
Government of Sindh - 99.9%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *http://www.jcrvis.com.pk/Images/NBFC.pdf*

Sindh Leasing Company Limited

OVERVIEW OF THE INSTITUTION

Sindh Leasing Company Limited (SLCL) was incorporated in December 2013 under Companies Ordinance, 1984.

Profile of Chairman
Mr. Muhammad Imran Malik serves as Chairman of the Board; his experience spans over 37 years in various capacities in the financial sector. Prior to joining SLCL, he served as CEO and President of a Non-Bank Financial Institution.

Profile of CEO
Mr. Muhammad Bilal Sheikh was appointed as CEO in 2016; Mr. Sheikh has served as President and CEO of Sindh Bank Limited. He is a seasoned banker with over 45 years of experience.

Financial Snapshot
Net Equity: HY17- Rs. 2.1b, FY16- Rs. 1.1b

Net Lease Portfolio: HY17- Rs. 931m, FY16- Rs. 701m

Net Profit: HY17- Rs. 18m, FY16- Rs. 44m

RATING RATIONALE

Operating under ambit of Companies Ordinance, 2010, Sindh Leasing Company Limited (SLCL) is in the business of providing finance lease, auto loans and working capital financing. Currently, the company operates out of five branches, with the portfolio concentrated in Karachi. SLCL's strategy is to focus on provision of services to small and medium enterprises.

Key Rating Drivers

- **Sponsor Support & Capitalization:** The assigned ratings reflect demonstrated financial support of SLCL's sponsor, Government of Sindh (GoS). GoS injected equity to the tune of Rs. 1.0b in 1HFY17. Resultantly, net equity of SLCL increased to Rs. 2.1b at end-Dec'2016. Gearing ratio was low at 0.24x at end-Dec'2016 and is expected to remain at manageable levels over the rating horizon at around 1(x), going forward.

- **Governance:** During the period under review, changes were noted in composition of Board and management team to comply with the regulatory stipulations; appointment of independent director, formulation of Board Risk Committee (BRC), induction of Compliance Officer. Four out of the eight directors are now independent directors.

- **Financing Portfolio & Credit Risk:** Net Financing Portfolio witnessed significant increase and was reported higher (9M17: Rs. 1,041; HY17: Rs. 931m; FY16: Rs. 701m; FY15: Rs. 374m); this increase mainly emanated from lease disbursement. While infection in the portfolio has remained negligible, overall exposure to credit risk is high given the sizeable counterparty and sectoral concentration (sugar sector) in the portfolio. Moreover, portfolio also includes exposure to clients with weak risk profiles. Management expects concentration levels to reduce overtime with increase in financing portfolio. Quality of fresh underwriting on asset quality indicators will continue to be tracked by JCR-VIS.

- **Funding & Liquidity:** Liquidity profile of the institution derives support from sizeable liquid asset carried on the balance sheet. Excess liquidity is expected to be absorbed as the company forges ahead with its growth plans. Availability of funding lines will facilitate in planned expansion of lease portfolio. Moreover, SLCL envisages issuance of Certificate of Investments (CoIs) to further raise funds as and when required.

- **Profitability:** With decline in average KIBOR and given the significant liquidity available in the market, lending rates remained under pressure during 9M17. This alongwith increase in administrative expenses has resulted in limited growth in profit before tax during 9M17 despite significant increase in portfolio. Going forward, profitability will remain a function of increasing lease portfolio, impairment charges and level of administrative expenses. As per management, profitability will increase as S.E.C.P will allow raising certificate of deposit which will reduce funding cost and increase profitability.

Sindh Leasing Company Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	December' 16	June'16	June'15
Net Investment	931.0	701.1	373.9
Total Assets	2,676.2	1,366.4	1,172.2
Borrowings	500.0	250.0	95.0
Lease Key Money	229.8	151.0	70.3
Net Worth	2,121.6	1,104.0	1,059.7
INCOME STATEMENT	**December' 16**	**June'16**	**June'15**
Net Mark-up Income	58.1	88.8	19.6
Income from Investments	37.8	36.4	92.2
Net (Provisioning) / Reversal	(3.4)	(3.8)	(5.6)
Finance Cost	9.8	11.1	0.8
Operating Expenses	61.5	58.7	47.8
Profit (Loss) Before Tax	21.3	52.0	46.4
Profit (Loss) After Tax	17.6	44.2	32.7
RATIO ANALYSIS	**December' 16**	**June'16**	**June'15**
Gross Infection (%)	0.1%	-	-
Efficiency (%)	64.1%	46.7%	42.8%
ROAA (%)	1.6%	3.2%	2.9%
ROAE (%)	1.1%	4.1%	3.1%
Leverage (%)	37.0%	37.4%	17.2%

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	Sindh Leasing Company Limited
Sector	Non-Banking Finance Company
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
6/20/2017	A+	A-1	Stable	Reaffirmed
6/27/2016	A+	A-1	Stable	Upgrade
4/28/2015	A	A-2	Stable	Initial