RATING REPORT

Sindh Leasing Company Limited

REPORT DATE:
May 18, 2018

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	
Rating Date	*May 18, 2018*		*Jun 20, 2017*	

COMPANY INFORMATION

Incorporated in 2013	**External auditors:** BDO Ebrahim & Co. Chartered Accountants
Non-Banking Finance Company	**Chairman of the Board:** Mr. Syed Ali Murtaza Kazmi
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Bilal Sheikh
Government of Sindh - 100.0%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Non-Bank Financial Companies (October 2017)
http://jcrvis.com.pk/docs/NBFCs%20201710.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. Syed Ali Murtaza Kazmi serves as Chairman of the Board; his areas of expertise are corporate & commercial transactions as well as mergers & acquisitions. Mr. Kazmi also serves as an independent director of Arif Habib Limited.

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.

RATING RATIONALE

Sindh Leasing Company Limited (SLCL) was incorporated on December, 2013 and is in the business of providing finance lease, loans and advances. Currently, the company operates out of the head office and five branches (Karachi, Hyderabad, Lahore, Islamabad and Naudero).

Key Rating Drivers

Sponsor Support and Governance: The assigned ratings reflect demonstrated financial support of SLCL's sponsor, Government of Sindh (GoS). In line with best practices with regards to corporate governance, more than 1/3rd of the directors on the Board are independent; furthermore, the Board Audit Committee (BAC) is chaired by an independent director.

Financing Portfolio & Credit Risk: Net Financing Portfolio witnessed significant increase and was reported higher at Rs. 1.5b at end HY18 (FY17: Rs. 1.1b; FY16: Rs. 720.7m) on account of higher disbursements. While there is no infection in the portfolio, overall credit risk is considered high given the sizeable client and sector concentration in the portfolio. Around half of the portfolio is in the sugar sector, financial profile of which is considered weak. Being a commodity, sugar is prone to price and demand risk. Hence, this volatility has translated into weakening of borrowers' financial profile. Management expects concentration levels to decline, going forward. Asset quality would remain a function of prudent underwriting which JCR-VIS will continue to track.

Funding, Liquidity and Capitalization: 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 in case of contingencies is considered important from ratings perspective. Moreover, SLCL has started issuing Certificates of Investments (CoIs) to further raise funds in order to finance its portfolio. Additionally, GoS injected equity to the tune of Rs. 1.5b on 20th March 2018 resulting in net equity of SLCL to increase to Rs. 3.7b at end-March 2018. Resultantly, leverage ratio was low minimal at end-9MFY18 and is expected to remain at manageable levels, going forward.

Profitability: Efficiency of SLCL has declined on a timeline basis to 70.0% for 9MFY18 (FY17: 67.8%, FY16: 51.4%). This can be attributed to increase in administrative expenses over the years, which has resulted in limited growth in profit to Rs. 38.4m for 9MFY18 (FY17: 44.8m, FY16: Rs. 44.3m) despite significant increase in portfolio. Going forward, profitability will remain a function of increasing the lease & advances portfolio, impairment charges and level of administrative expenses.

Sindh Leasing Company Limited **Appendix I**

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**March' 18**	**June'17**	**June'16**
Net Investment in finance lease (net of Lease Key Money)	1,608.8	1,103.5	702.7
Loans & Advances	448.4	444.7	221.2
Total Assets (net of Lease Key Money)	3,707.0	2,781.3	1,366.4
Borrowings	-	582.5	250.0
Net Worth	3,687.2	2,148.8	1,104.0
INCOME STATEMENT	**March' 18**	**June'17**	**June'16**
Income from finance lease, auto and WC loans	150.9	224.2	125.6
Income from Investments	38.0	83.0	36.4
Finance Cost	13.6	30.6	11.1
Administrative Expenses	123.0	130.5	58.7
Profit (Loss) Before Tax	46.3	56.8	52.0
Profit (Loss) After Tax	38.4	44.8	44.3
RATIO ANALYSIS	**March' 18**	**June'17**	**June'16**
Gross Infection (%)	-	-	-
ROAA (%)	1.6%	2.2%	3.5%
ROAE (%)	1.8%	2.8%	4.1%
Gearing (x)	-	0.27	0.23
Leverage (x)	0.01	0.29	0.24
Efficiency (%)	70.0%	67.8%	51.4%

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	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
5/18/2018	A+	A-1	Stable	Reaffirmed
6/20/2017	A+	A-1	Stable	Reaffirmed
6/27/2016	A+	A-1	Stable	Upgrade
4/28/2015	A	A-2	Stable	Initial

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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