# RATING REPORT

## Primus Leasing Limited

**REPORT DATE:**
December 06, 2022

**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 Action** | Reaffirmed | | Reaffirmed | |
| **Rating Date** | *6th December'22* | | *16th December'21* | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 2017** | **External Auditors: EY Ford Rhodes** |
| **Public Unlisted Company** | **Chairman of the Board**: Ms. Ayesha Aziz |
| **Key Shareholders (with stake 5% or more):** | **Chief Executive Officer**: Mr. Irfan Ahmed |
| *Pak Brunei Investment Company Limited ~100%* | |

| APPLICABLE METHODOLOGY(IES) |
|---|
| **VIS Entity Rating Criteria: Non-Bank Financial Companies (March 2020)** |
| ***http://vis.com.pk/kc-meth.aspx*** |

# Primus Leasing Limited (PLL)

## OVERVIEW OF THE INSTITUTION

*Primus Leasing Limited (PLL) was incorporated on July 13, 2017 as a public unlisted company. The company is licensed to carry out leasing business as a Non-Banking Finance Company (NBFC). PLL is a wholly owned subsidiary of Pak Brunei Investment Company Limited.*

**Profile of Chairman**

*Ms. Ayesha Aziz holds over three decades of experience in Structured Finance, Private Equity & Strategic Advisory businesses. She has been associated with Pak Brunei Investment Company since inception. Previously, she has served in ANZ Grindlays Bank, Pak Oman Investment Company and its subsidiaries, in senior managerial roles. Ms. Aziz is an MBA from IBA Karachi and a qualified Chartered Financial Analyst (CFA).*

**Profile of CEO**

*Mr. Irfan Ahmed holds an MBA degree with specialization in Finance from Institute of Business Administration, University of Punjab. He started his career with ORIX Leasing Pakistan Limited (OLP) and was serving as Country Marketing Head at the time of leaving OLP in 2016. He holds cumulative professional experience of over 30 years. He is the Vice Chairman of NFBI & Modaraba*

## RATING RATIONALE

Rating assigned to Primus Leasing Limited (PLL) reflect its strong sponsor strength (Pak Brunei Investment Company Limited rated at 'AA+/A-1+' by VIS), sound asset quality indicators with negligible infection ratio, continuous growth in lease and loan portfolios, improvement in efficiency in line with higher average ticket size and overall enhancement of profitability metrics. The overall lease portfolio exhibits diversification in terms of sectoral composition. The company also has a service level agreement in place with the holding company for provision of all core functions and particularly for risk management and internal audit which is positively noted and reflected in the ratings. The ratings derive comfort from implicit financial support extended by the holding company with provision of short-term interest-bearing funding line during the rating review period to assist the company in its growth phase; the line although short-term in nature is expected to be enhanced and remain vested in the company in the medium term. The company was also able to successfully access the commercial borrowings avenue during the ongoing year to fund the growth momentum. In addition, PLL also has an arrangement for the transfer/sale of loan/ lease rental receivables to the holding company in case the need arises for liquidity support. The ratings also factor in the sound governance levels supported by presence of two independent directors on the Board, adequate board level committees in place and experienced management team. Continuation of portfolio growth while keeping the asset quality in check will remain imperative for ratings going forward. In line with prevailing economic and political uncertainty in the country coupled with lack luster NBFC environment, the materialization of targets seems challenging; the same will be vigilantly monitored by VIS.

PLL is engaged in leasing business and is classified as a Non-Baking Finance Company (NBFC). Majority shareholding of PLL is vested with the Pak Brunei Investment Company Limited (PBIC). The company is involved in the provision of finance leases and loans largely catering to SME segment producing essential goods.

**Rating Drivers**

**Portfolio Composition:** The company remained focused on corporate leases and commercial vehicle leases with no plan on entering the consumer segment till end-FY23. The portfolio constitutes of 46% lending/leasing made to finance machinery, 45% in leasing/ financing of saloon/ commercial vehicles while the remaining 9% includes commercial lending to corporate entities against property mortgage, a product started in FY21. The overall lease portfolio is spread over 20 sectors; major sector exposures pertained to Printing & Packaging (15%), Textile (15%), Health & Pharma (14%) and Construction (7%). The client concentration in financing portfolio also remained favorable with top 10 clients representing 31% (FY20: 34%) of total portfolio by end-FY21. As per the management, around 81% of the contracts have variable pricing while the remaining are on fixed rates. In addition, to protect the company against market risk in the ever-increasing policy rate scenario, PLL has started repricing of portfolio every three months as opposed to six months previously. As per management, client concentration is mainly a result of prudent and selective underwriting strategy. Geographically, the lease operations have presence in six cities with two cities, Gujranwala and Hyderabad added during the review period. Main concentration of the portfolio in the north region is in Lahore. Going forward, the management plans to have a cautious growth strategy with practice of targeting sectors falling under essential services; improving market penetration in the existing markets and increasing overall geographic outreach.

*Association of Pakistan for 2022-23.*

**Growth in lease portfolio on a timeline basis in absolute terms:** Notable increase was evidenced in PLL's net investment in finance lease to Rs. 1.8b (FY21: 1.2b; FY20: Rs. 972.9m) in line with higher disbursements resulting in increase in lease rental and residual value of the asset. Moreover, the long-term finances and loan portfolio also was recorded higher at Rs. 587.6m (FY21: Rs. 498.2m; FY20: Rs. 214.3m) on account of expansion of vehicle loans and term finance product by the company for its existing clients against mortgage of property with the aim to build a secured collateralized portfolio in these trying times. Subsequently, with cannibalization of market of finance leases by term finance product introduced, the proportion of net lease portfolio to core assets reduced on a timeline basis to 59.1% (FY21: 58.5%; FY20: 62.9%) by end-9MFY22.

**Sound asset quality indicators remained intact; risk management and other control functions are supported by the holding company.** With almost entire portfolio being performing with negligible infection ratios, asset quality indicators are considered strong. Moreover, the aggregate general allowance for potential lease losses stood at Rs. 17.2m (FY21: Rs. 17.8m; FY20: Rs. 18.1m) at end-9MFY22 providing adequate cushion for risk absorption. PLL is the first company in the leasing sector which became IFRS 9-ECL compliant in 2019. As per the management, the provisioning charge amounting to Rs. 17.2m is booked against actual charges of meager Rs. 2.5m as part of company's prudent strategy of recording subjective provisioning. Subsequently, the company has the option of reversing the provisioning amounting to Rs.14.7m; however, it is unlikely to be exercised as a precautionary measure for any unforeseen unfavorable delinquency instances in the future. Around 22% of the lease portfolio was restructured/ rescheduled during Covid-19 pandemic; nonetheless, almost all clients have started normal rental payments. PLL has a service level agreement in place with the holding company for provision of all core functions and particularly for risk management and internal audit.

**Revenue generation and profitability picked pace during the ongoing year:** The income generation exhibited improvement increasing to Rs. 150.5m (FY20: Rs. 126.0m) during FY21; the increase was majorly attributable to growth in income from finances portfolio to Rs. 41.2m (FY20: Rs. 19.2) as income from the lease portfolio largely remained stagnant at Rs.109.4m (FY20: Rs. 106.7m) during the outgoing year. During FY21, the management followed the strategy of selective expansion in the tested industrial/service sectors with gradual improved penetration in the performing areas. Moreover, additional exposures were allowed to performing clients due to which disbursement increased to Rs. 1.3b in FY21 as opposed to Rs. 568m in the preceding year. As per the management, PLL witnessed an increase in business after Sept'21 when Covid-19 pandemic related restrictions were relaxed. Currently, PLL has 219m (FY21:190) active lease contracts. Moreover, the average ticket size also increased to Rs. 17.9m during the rating review period as opposed to Rs. 14.3m in FY21; the same is likely to positively impact the efficiency ratio resulting in improved profitability indicators. PLL plans to close FY22 with a total disbursement of Rs. 1.8m while the disbursement target for FY23 is aimed at Rs. 2.1b.

Further, the other income decreased sizably to Rs. 5.5m (FY20: Rs. 26.0m) mainly due to reduction in the income on letter of placements issued by the holding company to Rs. 1.8m (FY20: Rs. 24.3m) during FY21. Moreover, administrative and general expenses witnessed a slight increase to Rs. 50.8m (FY20: Rs. 47.3m) in line with inflationary pressure on employee related expenditures and vehicle running expenses. PLL operates only through its head-office with only 11 employees. Despite increase in scale of operations, there has been no increase in the working staff which has led to improvement in efficiency indicators on a timeline to 23.5% (FY21: 31.7%; FY20: 30.7%) during 9MFY22. Moreover, owing to reversal against written off leases, PLL booked net reversal of Rs. 0.3m during FY21 as compared to provisioning expense incurred of Rs. 8.0m during the previous year. On the other hand, the finance cost incurred increased to Rs. 6.7m (FY20: Rs. 0.3m) in line with procurement of long-term loan from the holding company coupled with benchmark rates being at the high end of the spectrum. With the growth in operating scale largely offset by decline in other income and jump in financial expense borne, only marginal increase was evidenced in the bottom line reported at Rs. 69.5m during FY21 in comparison to Rs. 66.6m in the preceding year.

PLL has projected to close FY22 at a revenue of Rs.300.6m; the company is largely in sync with its target as topline was reported at Rs. 202.9m during 9MFY22. The positive momentum in revenues can be assessed from the fact that the revenue for 9MFY22 was higher than revenue generated from full year operations of FY21. The income growth emanated from augmentation of both leasing and financing portfolios. The company witnessed a healthy disbursement to the tune of Rs. 1.4b during the ongoing year surpassing the target set at Rs. 1.35b as opposed to disbursement amounting to Rs. 937.0m in the corresponding period last year (CPLY). Similarly, other income also increased to Rs. 11.1m (FY21: Rs. 5.5m) during 9MFY21 mainly due to increase in the front-end fee received along with higher profit earned on bank deposits in line with higher liquidity available with the company. Further, administrative and general expenses were largely rationalized in terms of growth in revenue; the same reported slight increase to Rs. 40.4m (9MFY21: Rs. 37.3m) in 9MFY22. On the flip side, significant increase in the finance cost was evidenced at Rs. 56.2m in line with increase in financing received from the holding company and external sources to meet growth targets as the entire equity available has been consumed. Moreover, PLL booked a reversal of Rs. 0.6m provisioning against potential lease and loan losses during the ongoing year. Subsequently, with upward trajectory evidenced in the lending portfolio resulting in enhanced topline, the company reported the highest net profit of Rs. 90.1m since inception during 9MFY22.

**Gradual equity growth owing to sizable dividend payout made:** Despite growth in the operating scale leading to improved profit generation, total equity of the company increased nominally to Rs. 1.1b (FY21: Rs. 1.0b; FY20: Rs. 1.02b) by end-9MFY22 owing to significant interim cash dividend at Rs. 0.60/share amounting to Rs. 60.0m paid during FY21. Given healthy growth in leasing operations, PLL has fully utilized the initial sponsor capital; however, credit lines from holding company and banks are in place to meet future funding requirements. Moreover, PLL has an arrangement with the holding company for the sale/transfer of loan/ lease portfolio and receivables in case the need arises for liquidity support. During the period under review, PLL procured running finance facility from the holding company worth Rs. 475.0m (FY21: Rs. 300.0m) to meet liquidity requirements of the growing company. The loan was renewed in Oct'22 for another year; however, despite being classified as short-term the financing will remain vested in the company in the long-term as part of implicit support extended by the sponsor. Moreover, the amount is also expected to be enhanced in the future as the company is in sustainable growing phase. The facility is secured against first hypothecation charge on company's receivables of Rs. 710.0m and carries a markup charge of 1M-Kibor + 1.25%. Furthermore, commercial long-term funding was also obtained to the tune of Rs. 383.3m during the ongoing year due to mature latest by April 28, 2025. The aforementioned facility is secured against a pari passu hypothecation charge over the company's present and future book debts with a markup charge of 3M-Kibor plus 75 basis points; the utilization of funding lines is expected to remain on the higher side going forward.

**Adequate Corporate Governance Framework**

Board of Directors (BoD) comprises six members including two independent directors. The Board is chaired by Ms. Ayesha Aziz who is a seasoned professional with cumulative experience of around three decades in fields of structured finance, private equity & strategic advisory businesses. There are three board level committees namely: Board HR&R Committee (HRRC), Credit Committee (CC) and Audit Committee (AC). The CC and AC are headed by independent directors. PLL shares the Risk Management and Audit function with parent company to increase the operational efficiency and confidence of parent company in the operations of PLL.

| | |
|---|---|
| | The IT function is shared with PBIC while an Oracle based CRM system is being used for portfolio management and reporting purpose. The CRM gives report to CC on a monthly basis while the board reviews leases and loans books on a quarterly basis. Annual review of the portfolio is also done at Holding Company level. No key management position was vacant during the rating review period; meanwhile, the team has sizable experience in the related industry. PLL's external auditors are EY Ford Rhodes Chartered Accountants, who is classified in 'Category A' of SBP's Panel of Auditors. |

**Primus Leasing Limited** **Appendix I**

## Financial Summary

| BALANCE SHEET | 2018 | 2019 | 2020 | 2021 | 9M'22 |
|---|---|---|---|---|---|
| Investments | 583.2 | 260.0 | 133.0 | - | - |
| Net Investment in Leases | 344.5 | 592.8 | 558.6 | 703.3 | 1,201.2 |
| Current Maturity of Non-Current Assets | 147.4 | 347.1 | 511.4 | 708.3 | 805.1 |
| Long-term Finances & Loans | 40.2 | 53.7 | 117.7 | 258.6 | 347.3 |
| Total Assets | 1,154.5 | 1,289.5 | 1,366.1 | 1,739.3 | 2,597.3 |
| Long-term Deposits (Inc. Current Maturity) | 128.9 | 226.3 | 307.7 | 370.8 | 559.2 |
| Long Term Borrowings | - | - | - | - | 383.3 |
| Loan from Holding Company | - | - | - | 300.0 | 475.0 |
| Total Liabilities | 143.5 | 277.2 | 342.3 | 706.1 | 1,473.9 |
| Paid Up Capital | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Total Equity | 1,011.0 | 1,012.3 | 1,023.8 | 1,033.3 | 1,123.3 |
| | | | | | |
| INCOME STATEMENT | 2018 | 2019 | 2020 | 2021 | 9M'22 |
| Mark-up Income | 27.6 | 99.5 | 126.0 | 150.5 | 202.9 |
| Other Income | 57.3 | 52.2 | 26.0 | 5.5 | 11.1 |
| Operating Expenses | 37.9 | 52.6 | 49.3 | 52.8 | 42.6 |
| Provision/ (Reversal) for Potential Lease Losses | 5.2 | 4.7 | 8.0 | (0.32) | (0.55) |
| Finance Cost | 0.0 | 0.2 | 0.3 | 6.7 | 56.2 |
| Profit (Loss) Before Tax | 41.8 | 94.3 | 94.3 | 96.9 | 115.8 |
| Profit (Loss) After Tax | 29.6 | 66.3 | 66.6 | 69.5 | 90.1 |
| | | | | | |
| RATIO ANALYSIS | 2018 | 2019 | 2020 | 2021 | 9M'22 |
| Gross Infection (%) | - | - | - | - | - |
| Provisioning Coverage (%) | - | - | - | - | - |
| Net Infection (%) | - | - | - | -1.01% | -0.74% |
| Net Lease Portfolio to Core Assets (%) | 32.9% | 61.8% | 62.9% | 58.5% | 66.7% |
| Efficiency (%) | 60.2% | 38.2% | 30.7% | 31.7% | 23.5% |
| ROAA (%) | 2.7% | 5.4% | 5.0% | 4.5% | 4.9% |
| ROAE (%) | 2.9% | 6.6% | 6.5% | 6.8% | 10.9% |
| Current Ratio (x) | 64.5 | 17.3 | 6.0 | 1.7 | 1.40 |

# ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix 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** | Primus Leasing Limited (PLL) |
| **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** | | | | |
| 06/12/2022 | A+ | A-1 | Stable | Reaffirmed |
| 16/12/2021 | A+ | A-1 | Stable | Initial |

| | |
|---|---|
| **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 Meeting Conducted**

| Name | Designation | Date |
|---|---|---|
| Mr. Irfan Ahmed | Chief Executive Officer | Nov 4, 2022 |
| Mr. Zia Mohiuddin | Chief Accounting Officer | |