RATING REPORT

Primus Leasing Limited

REPORT DATE:
October 31, 2023

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	*31th October' 23*		*6th December'22*	

COMPANY INFORMATION	
Incorporated in 2017	**External Auditors:** Yousaf Adil Chartered Accountants
Public Unlisted Company	**Chairman of the Board**: Mr. S.M. Aamir Shamim
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)
NBFCs202003.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale: **https://docs.vis.com.pk/docs/VISRatingScales.pdf**

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 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 Association of Pakistan for 2022-23.

RATING RATIONALE

Ratings 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, 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 support functions and particularly for risk management and internal audit which is reflected positively in the ratings. The ratings derive comfort from implicit financial support extended by the holding company with enhancement of short-term interest-bearing funding line to support the Company in its growth phase. The funding is expected to continue to support in the medium ter. In addition, PLL has access to commercial borrowings to fund the growth momentum. Moreover, an arrangement for the transfer/sale of loan/ lease rental receivables to the holding company is also available 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 challenging NBFC environment, materialization of growth targets will remain critical.

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: During the outgoing year, the management followed the strategy of selective expansion in the tested industrial/ service sectors and gradually improved penetration in performing areas with disbursements recorded at Rs. 1.9b (FY21: Rs. 1.34m). The company remained focused on corporate leases and commercial vehicle leases with no plan on entering the consumer segment till end-FY24. Moreover, PLL will continue following a cautious approach and will keep major focus on targeting sectors falling under the ambit of essential services, a strategy that proved beneficial in the current trying times. The overall lease portfolio is spread over 20 sectors; major sector exposures pertained to Health & Pharma (FY23: 15.7%; FY22: 14.0%), Textile (FY23: 15.6%; FY22: 15%), Printing & Packaging (FY23: 13.6%; FY22: 15%) and Construction (FY23: 5.8%; FY22: 7%). Going forward, management plans to focus on Pharma, Health and Food related sectors during the rating horizon. The client concentration in the financing portfolio improved during the review period to 22% (FY21: 31%) at end-FY22. Moreover, around three-fourths of the clients pertain to the SME segment while the remaining include commercial and corporate clients. As per the management, around 90% of the contracts have variable pricing while the remaining are on fixed rates. The clients having fixed pricing regime are relatively older as no new disbursement is being done on fixed rate since the last two years. In addition, to protect the company against market risk in the ever-increasing policy rate scenario, PLL since the last eighteen months reprices the portfolio every three months as opposed to six months previously. Geographically, the lease operations have presence in six main cities; no new region was added during the review period. Main concentration of the portfolio in the north region is in Lahore. Going forward, the management plans to be very prudent in future lending aiming cautious growth to keep the portfolio performing; there is no plan to open any new branch in the medium term also.

Growth in lease portfolio on a timeline basis in absolute terms: Sizable increase was witnessed on a timeline in PLL's net investment in finance lease to Rs. 2.1b (FY22: 1.9b; FY21: Rs. 1.2b) by end-HY23 in line with higher disbursements resulting in increase in lease rental and residual value of the asset. In addition, the long-term finances and loan portfolio also was recorded higher at Rs. 624.5m (FY22: Rs. 572.3m; FY21: Rs. 502.6m) 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 the economically challenging conditions. Subsequently, with uptick in disbursements, the proportion of net lease portfolio to core assets increased on a timeline to 66.7% (FY22: 59.6%; FY21: 58.5%) by end-HY23.

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. 18.5m (FY22: Rs. 18.5m; FY21: Rs. 17.8m) at end-HY23 providing an 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. 18.5m is booked against actual charges of Rs. 7.0m as part of company's prudent strategy of recording subjective provisioning. Subsequently, the company has the option of reversing the provisioning amounting to Rs. 11.5m; however, it is unlikely to be exercised as a precautionary measure for any unforeseen unfavorable delinquency instances in the future. Moreover, the lease portfolio restructured/ rescheduled during Covid-19 pandemic is currently regular. Furthermore, PLL has a service level agreement in place with the holding company for provision of all support functions and particularly for risk management and internal audit.

Revenue generation and profitability picked pace during the ongoing year: The income generation exhibited upward trajectory increasing to Rs. 304.1m (FY21: Rs. 150.5m) during the outgoing year; the increase was attributable to growth in both income from finances and lease portfolios to Rs. 101.7m (FY21: Rs. 41.2) and Rs. 202.4m (FY21: Rs. 109.4m) respectively during FY22. As per the management, additional facilities/exposures were allowed to performing clients due to which fresh disbursements increased to Rs. 1.86b in FY22 as opposed to Rs. 1.34m in the preceding year, exhibiting a growth of 40%. The Company followed the strategy of selective expansion in the tested industrial/service sectors with gradual improved penetration in the performing areas. Currently, PLL has 233(FY22: 227; FY21:219) active lease/loan contracts. Moreover, the average ticket size also increased to Rs. 18.1m (FY22: Rs.17.1m; FY21: Rs. 17.1m) during the rating review period; the same is likely to positively impact the efficiency ratio resulting in improved profitability indicators. PLL plans to close FY23 with a total disbursement of Rs. 1.4b; the same is achievable given Rs. 1.0b was disbursed till end-Sep'23. In addition, the disbursement target for FY24 is set at Rs. 2.1b.

Further, the other income increased slightly to Rs. 6.9m (FY21: Rs. 5.5m) mainly due to higher profit reaped on bank balances. On the other hand, administrative and general expenses were also recorded marginally higher at Rs. 56.7m (FY21: Rs. 50.8m) in line with inflationary pressure on employee related expenditures and vehicle running expenses. PLL operates only through its head-office at Lahore and a branch in Karachi (the registered 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 16.9% (FY22: 21.9% FY21: 31.7%) during HY23. Further, owing to provision amounting to Rs. 4.2m against the finance lease portfolio being largely offset by reversal of Rs. 3.5m made under finances & loans, net provisioning charge of meager Rs. 0.8m was recorded during the outgoing year in comparison to net reversal of Rs. 0.3m recorded during FY21. On the other hand, the finance cost incurred increased significantly to Rs. 87.8m (FY21: Rs. 6.7m) in line with procurement of long-term loans both from the holding company and other financial institutions coupled with benchmark rates being at the high end of the spectrum. Subsequently, in line with growth trajectory of revenues, the bottom line was recorded higher at Rs. 126.2m (FY21: Rs. 69.5m) during the outgoing year; the same is the highest for the Company since inception.

PLL has projected to close FY23 at a revenue of Rs.500m; the company is largely in sync with its target as topline was reported at Rs. 221.2m during HY23. The positive momentum in revenues can be assessed from the fact that the revenue for first half is almost three-fourth of revenue generated from full year operations of FY22. The income growth emanated from augmentation of both leasing and financing portfolios. Similarly, other income also increased to Rs. 11.7m (HY22: Rs. 7.8m) during HY22 mainly due to 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 increase to Rs. 32.2m (HY22: Rs. 25.6m) in HY23. On the flip side, significant increase in the finance cost was evidenced at Rs. 89.0m (HY22: Rs. 30.6m) 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, no reversal or provisioning charge was booked 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. 83.4m (HY22: Rs. 55.6m) ever recorded during HY23.

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 (FY22: Rs. 1.1b; FY21: Rs. 1.02b) by end-HY23 owing to significant interim cash dividend at Rs. 1.0/share amounting to Rs. 100.0m paid during FY22. 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. In addition, PLL has procured a running finance facility from the holding company to the tune of worth Rs. 400.0m (FY22: 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 has also been enhanced to Rs. 650.0m currently as the company is in sustainable growing phase. The facility is secured against first hypothecation charge on Company's assets including its loan and lease portfolio and all the receivables there to and carries a markup charge of 1M-Kibor + 100bps. Furthermore, the commercial long-term fundings were also obtained aggregating to Rs. 480.0m (FY22: Rs. 566.7m; FY21: nil) during the rating review period; the borrowing is expected to mature from Aug-Dec'2025. In addition, two other lines of Rs. 200m each are also in the pipeline from two commercial banks. Going forward, the utilization of funding lines from commercial banks is expected to remain on the higher side owing to positive rate differential as opposed to facility offered by the sponsor.

Adequate Corporate Governance Framework

Board of Directors (BoD) comprises six members including two independent directors. The Board is chaired by Mr. S.M. Aamir Shamim, a seasoned banking and finance professional with over 31 years of experience, currently holding the position of Managing Director and CEO at Pak Brunei Investment Company Limited. 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 Yousaf Adil Chartered Accountants, who are classified in 'Category A' of SBP's Panel of Auditors.

Primus Leasing Limited   Appendix I

BALANCE SHEET	2019	2020	2021	2022	HY23
Investments	260.0	133.0	-	-	-
Net Investment in Leases	592.8	558.6	703.3	1,290.8	1,347.9
Current Maturity of Non-Current Assets	347.1	511.4	708.3	865.1	995.3
Long-term Finances & Loans	53.7	117.7	258.6	312.3	333.5
Total Assets	1,289.5	1,366.1	1,739.3	2,761.3	2,739.5
Long-term Deposits (Inc. Current Maturity)	226.3	307.7	370.8	608.9	670.4
Long Term Borrowings	-	-	-	566.7	480.0
Loan from Holding Company	-	-	300.0	475.0	400.0
Total Liabilities	277.2	342.3	706.1	1,701.8	1,596.7
Paid Up Capital	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Total Equity	1,012.3	1,023.8	1,033.3	1,059.5	1,142.8

INCOME STATEMENT	2019	2020	2021	2022	HY23
Net Mark-up Income	99.5	126.0	150.5	304.1	221.2
Other Income	52.2	26.0	5.5	6.9	11.7
Operating Expenses	52.6	49.3	52.8	60.0	34.5
Provision/ (Reversal) for Potential Lease Losses	4.7	8.0	(0.32)	(0.8)	(0.0)
Finance Cost	0.2	0.3	6.7	87.8	89.0
Profit (Loss) Before Tax	94.3	94.3	96.9	162.5	109.4
Profit (Loss) After Tax	66.3	66.6	69.5	126.2	83.4

RATIO ANALYSIS	2019	2020	2021	2022	HY23
Gross Infection (%)	-	-	-	-	-
Provisioning Coverage (%)	-	-	-	-	-
Net Infection (%)	-	-	-1.01%	-0.77%	-0.61%
Net Lease Portfolio to Core Assets (%)	61.8%	62.9%	58.5%	59.6%	66.7%
Efficiency (%)	38.2%	30.7%	31.7%	21.9%	16.9%
ROAA (%)	5.4%	5.0%	4.5%	5.9%	3.0%
ROAE (%)	6.6%	6.5%	6.8%	11.8%	7.6%
Current Ratio (x)	17.3	6.0	1.7	1.4	1.3

REGULATORY DISCLOSURES — Appendix II

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				
31/10/2023	A+	A-1	Stable	Reaffirmed
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.
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.

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Irfan Ahmed	Chief Executive Officer	Oct 3, 2023
Mr. Zia Mohiuddin	Chief Accounting Officer	