RATING REPORT

Primus Leasing Limited

REPORT DATE:
November 12, 2024

RATING ANALYST:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A1	A+	A1
Outlook/ Rating Watch	*Stable*		*Stable*	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*12-Nov-24*		*31-Oct-23*	

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
https://docs.vis.com.pk/Methodologies%202024/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	RATING RATIONALE

Primus Leasing Limited was incorporated on July 13, 2017 as a public unlisted company. The NBFC 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

Mr. S.M. Aamir Shamim, a seasoned banking and finance professional with over 31 years of experience, currently also holds the position of Managing Director (MD) and Chief Executive Officer (CEO) at Pak Brunei Investment Company Limited. Before stepping into his current role at Pak Brunei, Mr. Aamir served in various high-ranking roles across international and local financial institutions, acquiring substantial experience in Conventional, Islamic, and Investment Banking.

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

RATING RATIONALE

The assigned ratings derive strength from the strong sponsor support of Pak Brunei Investment Company (rated at 'AA+/A-1+' by VIS), sound asset quality indicators with negligible infection, improvement in efficiency resulting in overall enhancement of profitability metrics. The overall lease portfolio exhibits diversification in terms of sectoral exposure. PLL also has a service level agreement in place with the holding company for provision of all support functions, particularly risk management and internal audit, which reflects positively on the ratings. The ratings derive further comfort from implicit financial support extended by the holding company with enhancement of short-term interest-bearing funding line to support the NBFC's growth plans. 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 to support liquidity. 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.

With the improving economic conditions, portfolio growth while maintaining the asset quality will remain imperative for ratings going forward. Materialization of growth targets will also be an important ratings consideration.

Leasing Sector

Leasing companies in Pakistan operate within a regulatory framework under the Securities and Exchange Commission of Pakistan (SECP), which provides oversight and establishes capital requirements. However, the sector remains susceptible to economic volatility, particularly influenced by inflationary pressures and interest rate fluctuations, which affect borrowing costs and demand for lease financing.

During FY24, the sector faced challenges due to high inflation and rising interest rates, constraining leasing companies' profitability and asset quality. Higher funding costs have impacted margins, while non-performing leases have increased, reflecting borrower strain in a tightening economic environment. Additionally, reliance on concentrated client bases and limited diversification exposes leasing companies to credit risks. While regulatory oversight offers some stability, the sector's limited resilience to economic shocks and dependency on external funding sources elevate its business risk profile.

Company Profile

PLL was incorporated on July 13, 2017, as a public unlisted company and is classified as a Non-Banking Finance Company (NBFC). A wholly owned subsidiary of the Pak Brunei Investment Company Limited (PBIC), the NBFC is involved in the provision of finance leases and loans largely catering to SME segment producing essential goods. With special focus on sectors falling under the ambit of essential services.

Board of Directors (BoD) comprises six members (excluding the CEO) including two independent directors. The Board is chaired by Mr. S.M. Aamir Shamim, a seasoned banking and *holds cumulative professional experience of over 30 years. He has remained the Vice Chairman of NFBI & Modaraba Association of Pakistan for 2023-24.*

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 & Risk Monitoring Committee (CRC) and Audit Committee (AC). The CRC and AC are headed by independent directors. PLL has contracted out the Risk Management and Audit functions to the parent company to increase the operational efficiency and provide oversight of the parent company on operations of the NBFC.

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 CRC on a monthly basis while the board reviews leases and loans books on a quarterly basis. Annual review of the portfolio is also conducted at the holding company level.

Portfolio Composition

During the outgoing year, PLL faced various challenges such as deteriorating economic conditions characterized by high inflation and high policy rate; leading to unfavorable business environment, compelling the management to opt for cautious approach in lending to ensure a healthy balance between risk and performance of the portfolio. This subsequently resulted in lower disbursements of PKR 1.4b (CY22: PKR 1.9b) during CY23. The NBFC remained focused on corporate leases and commercial vehicle leases with no plan to enter the consumer segment. Moreover, PLL will continue to leverage technology advancements, enhance its product offerings, and cautiously improve penetration in the existing markets and increase geographic outreach. The overall lease portfolio is well diversified in over 20 sectors; major sector exposures pertained to Health and Pharma (1HCY24: 15.9%; CY23: 17.2%), Printing and Packaging (1HCY24: 15.6%; CY23: 12.7%), Textile (1HCY24: 11.9%; CY23: 14.3%) and Dairy & Poultry (1HCY24: 9%; CY23: 7.6%). Going forward, management plans to focus on non-cyclical sectors during the rating horizon.

The number of clients rose to 135 (CY23: 124) by end-1HCY24, around three-fourths of which 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. Geographically, the lease operations have presence in six main cities; no new region was added during the review period. Main concentration of the portfolio is in the north, mostly in Lahore. Going forward, the management plans to geographically expand the leasing operations and increase the disbursements to PKR 1.9b in CY25 with recovery in macro environment. No new brand will be added in the medium term.

Decline in lease portfolio

Slight decline is witnessed in PLL's net investment in finance lease to PKR 1.92b (CY23: Rs 1.93b; CY22: 1.89m) by end-HY24 in line with lower disbursements. PLL continued cautious approach amid high markup rates scenario along with subdued demand by SME sector during the year under review and focused more on secured transactions and safer assets due to which, the long-term finances and loan portfolio recorded increase on timeline basis at PKR 937.5m (CY23: 793.7m; CY22: PKR 572.3m). Focus on term finance reflects PLL strategy of building a secured collateralized portfolio in the economically challenging conditions. Accordingly, proportion of net lease portfolio to core assets decreased to 52.8% (CY23: 56.6%; CY22: 59.6%) by end-HY24.

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 ratio, asset quality indicators are considered strong. Moreover, the aggregate general allowance for potential losses stood at PKR 18.5m (CY23: PKR 18.5m; CY22: PKR 18.5m) at end-HY24 providing an adequate cushion for loss absorption. PLL, as part of prudent policy, has been recording provisioning on subjective basis with the option of reversing the same, if so required. This option is unlikely to be exercised as PLL wishes to maintain the provision pool for any unforeseen delinquencies in the future. Furthermore, PLL has a service level agreement in place with the holding company for provision of all support functions, particularly risk management and internal audit functions providing independent review of the business.

Revenue generation and profitability picked pace during the ongoing year

The income generation exhibited upward trajectory increasing to PKR 496.2m (CY22: PKR 304.1m) during the outgoing year; the increase was attributable to growth in term finance as well as lease portfolios during CY23. As a part of prudent strategy adopted by PLL during the challenging business environment, fresh disbursements were recorded lower at of PKR 1.4b (CY22: PKR 1.9b) during CY23. PLL followed the strategy of selective expansion in the tested industrial/service sectors with gradual improved penetration in the performing areas. PLL had 252 (CY22: 242) active lease/loan contracts in CY23. Moreover, the average ticket size was PKR 20m during the outgoing period. PLL plans to close CY24 with a total disbursement of PKR 1.6b and the disbursement target for CY25 is set at PKR 1.9b.

Other income increased to PKR 16.2m (CY22: PKR 6.9m) mainly due to higher profit reaped on bank deposits. On the other hand, administrative and general expenses were also recorded higher at PKR 81.3m (CY22: PKR 56.7m) in line with inflationary pressure. PLL operates only through its head-office at Lahore and a branch in Karachi (the registered office) with skeleton team of 12 employees. Efficiency ratio improved slightly to 16.4% (CY22: 18.6%) during CY23 since there has been no increase in the staff strength. On the other hand, the finance cost rose to PKR 192.0m (CY22: PKR 87.8m) in line with procurement of long-term loans both from the holding company and other financial institutions coupled with elevated benchmark interest rates. In line with growth in revenues, the bottom line was recorded higher at PKR 187.1m (CY22: PKR 126.2m); the same is the highest for PLL since inception.

Growth in income during 1HCY24 to PKR 262.2m was supported by increase in earnings from term portfolios to PKR 111.3m (1HCY23: PKR 62.4m). Similarly, other income also increased to PKR 16.1m (1HCY23: PKR 11.7m) during 1HCY24 mainly due to higher profit earned on excess liquidity kept as bank deposits. Moreover, administrative and general expenses increased to PKR 41.1m (1HCY23: PKR 32.2m) in 1HCY24. On the flip side, increase in the finance cost was evidenced at PKR 105.1m (1HCY23: PKR 89.0m) owing to increase in financing received from the holding company to meet growth targets. Income growth helped PLL to report the net profit of PKR 90.2m (1HCY23: PKR 83.4m) during 1HCY24.

Liquidity and capitalization indicators are adequate

Enhance profitability improved the total equity of PLL slightly to PKR 1.2b (CY23: PKR 1.1b; CY22: PKR 1.1b) by end-HY24. Marginal increase in equity was owing to distribution of interim cash dividend amounting to PKR 120m in CY23. Moreover, PLL's liquidity is supported by the standing arrangement with the holding company for the sale/transfer of loan/ lease portfolio and receivables if so required. In addition, a running finance facility from the holding company of PKR 750m (CY23: PKR 600m; CY22: PKR 475m) to meet working capital requirements further provide comfort to the liquidity position. Reduction in long-term fundings to PKR 266.7m (CY23: PKR 373.3m) during the rating review period improved the capitalization profile of PLL. However, the long-term funding is projected to reach PKR 734m by end-CY24 to fund the portfolio growth. Going forward, PLL will continue to procure funding from the holding company and commercial banks to fuel the business growth.

Primus Leasing Limited Appendix I

FINANCIAL SUMMARY				(Amounts in PKR millions)
BALANCE SHEET	**2021**	**2022**	**2023**	**1HCY24***
Investments	-	-	-	-
Net Investment in Leases	703.3	1,290.8	1,181.0	1,077.7
Current Maturity of Non-Current Assets	708.3	865.1	1,144.0	1,262.2
Long-term Finances & Loans	258.6	312.3	402.2	522.7
Long-term loans to employees	0.4	8.4	4.1	2.1
Total Assets	1,739.3	2,761.3	2,886.7	3,000.3
Long-term Deposits (Inc. Current Maturity)	370.8	608.9	684.2	714.7
Long Term Borrowings (Inc. Current Maturity)	-	566.3	373.3	266.3
Short-term Borrowings	300.0	475.0	600.0	705.0
Total Debt	300.0	1,041.3	973.3	971.3
Total Liabilities	706.1	1,701.8	1,760.1	1,783.5
Paid Up Capital	1,000.0	1,000.0	1,000.0	1,000.0
Total Equity	1,033.3	1,059.5	1,126.6	1,216.8
INCOME STATEMENT	**2021**	**2022**	**2023**	**1HCY24***
Markup Income	150.5	304.1	496.2	262.4
Other Income	5.5	6.9	16.2	16.1
Operating Expenses	52.8	60.0	86.8	45.0
Provision/ (Reversal) for Potential Lease Losses	-0.3	-0.8	-	-
Finance Cost	6.7	87.8	192.0	105.1
Profit (Loss) Before Tax	96.9	162.5	233.6	128.4
Profit (Loss) After Tax	69.5	126.2	187.1	90.2
RATIO ANALYSIS	**2021**	**2022**	**2023**	**1HCY24***
Net Infection (%)	-0.7%	-0.1%	-0.2%	-0.1%
Net Lease Portfolio to Core Assets (%)	61.7%	69.2%	61.2%	56.3%
Efficiency (%)	33.7%	18.6%	16.4%	15.7%
ROAA (%)	4.5%	5.6%	6.6%	6.1%**
ROAE (%)	6.8%	12.1%	17.1%	15.4%**
Current Ratio (x)	1.7	1.4	1.2	1.1

**Unaudited*
***Annualized*

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 Ratings
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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Outlook/ Rating Watch	Rating Action
RATING TYPE: ENTITY				
12/11/2024	A+	A1	Stable	Reaffirmed
31/10/2023	A+	A1	Stable	Reaffirmed
06/12/2022	A+	A1	Stable	Reaffirmed
16/12/2021	A+	A1	Stable	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Irfan Ahmed	Chief Executive Officer	28th October, 2024
Mr. Zia Mohiuddin	Chief Accounting Officer	