

Pak-Gulf Leasing Company Limited

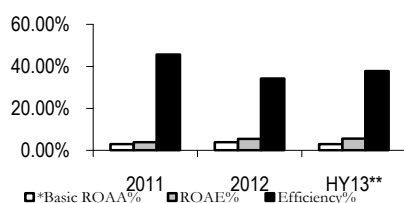
Chairman & CEO: Mr. Sobail Inam Ellahi

April 17, 2013

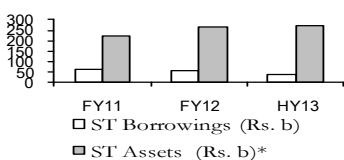
Analysts: Zia Usmani
Maria Wasti

Category	Latest	Previous
Entity	BBB+/A-3 April 8, '13	BBB+/A-3 July 29, '11
Outlook	Stable April 8, '13	Stable July 29, '11

Key Financial Trends



* Based on recurring profit before provision and taxation
**HY13 figures are annualized



*Short term financing plus liquid assets

	FY11	FY12	HY13
Total Assets (Rs. in m)	572	582	589
Net Leases (Rs.in m)	474	451	434
Net Infection (%)	9.4%	6.5%	1.1%
Profit / (Loss) (Rs.in m)	16	23	12
Equity *(Rs. in m)	365	390	403
Liquid Assets % Deposits & Borrowings	7.9%	83.3%	184%

*Excluding surplus on revaluation of operating fixed assets.

Note: Assets & liabilities, where applicable, are net of lease key money

Rating Rationale

Equity (excluding revaluation surplus on operating fixed assets) of Pak-Gulf Leasing Company Limited increased to Rs. 403m (FY12: Rs. 390m; FY11: Rs. 365m) on account of profit retention, though it was still lower than Minimum Equity Requirement (MER) of Rs. 500m for June-end 2012 as per SRO(I)/2009 issued by Securities & Exchange Commission of Pakistan (SECP). MER for end Jun'13 is stipulated higher at Rs. 700m as per the same circular. Recently, SECP has circulated recommendations of NBF Sector Reform Committee as per which MER of leasing companies has been maintained at Rs. 300m before increasing to Rs. 500m as of June 30, 2016. However, in case of no revision in the MER, majority directors on the Board have agreed to inject the required equity through issuance of right shares.

In line with the traditionally cautious underwriting stance of management, fresh disbursements were low and reduced to Rs. 303m (FY11: Rs. 393m) in FY12. Net lease portfolio of PGL as of December 31, 2012 decreased to Rs. 434m (FY11: Rs. 474m). As at end March 2013, fresh leases of Rs.233.6m have been written against disbursement target of Rs.196.5m for 3Q13. Majority of disbursements are targeted for the last quarter and are currently in the pipeline with the management expecting to surpass the target of Rs. 406m for FY13. Following out of court settlement of some cases under litigation, non-performing assets decreased to Rs. 32m (FY12: Rs. 63m; FY11: Rs. 81m) with cases under litigation comprising almost 88% of the infected portfolio at end Dec'12. Resultantly, gross infection declined to 7% (FY11: 15.7%) while net infection also decreased to 1.1% (FY11: 9.4%) in HY13.

The company has maintained low debt leverage. Outstanding borrowings and COIs have significantly reduced from Rs. 88m at end FY11 to Rs. 40m at end HY13, all being short term in nature. Majority of the CoIs were issued to associated concerns. Liquid assets increased to 1.8x of outstanding borrowings at end HY13 and included cash of Rs. 68.3m parked in banks. Excess liquidity will be absorbed in core operations, which are expected to pick pace in the latter half of the year.

Profitability showed improvement in FY12 as higher income was generated from leasing portfolio on the back of reduction in delinquency rate and higher spread charged over the benchmark rate for fresh leases. Return on lease portfolio improved to 17.0% (FY11: 16.0%) during FY12. Net markup income also depicted an increase to Rs. 72m (FY11: Rs. 63m) in FY12. Excluding the impact of CEO drawing his prior years' salary in FY11, operating expenses were maintained at the same level in FY12. During HY13, lease income decreased vis-à-vis the corresponding period last year due to significantly higher loss on lease termination; however, net profit was comparatively higher due to net reversals on settlement of some non-performing exposures.

There has been a recent addition in senior management with the appointment of Mr. Mahfuz ur Rehman Pasha who has previously served as a Grade 21 officer in Inland Revenue Department of the Government of Pakistan.

Overview of the Institution

Pak-Gulf Leasing Company Limited was incorporated in 1994 and commenced operations from September 16, 1996. The company is principally engaged in the business of leasing and is listed on all three stock exchanges of Pakistan. Financial statements for 2012 have been audited by M/s KPMG Taseer Hadi & Co. Chartered Accountants JCR-VIS