

Grays Leasing Limited

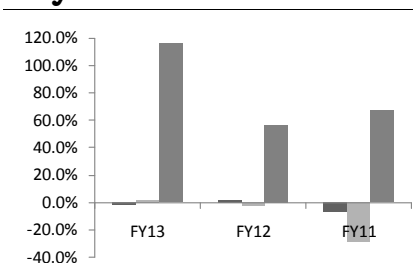
Chairman: Mr. Khawar Anwar Khawaja; CEO: Mr. Muhammad Tabir Butt

October 29, 2013

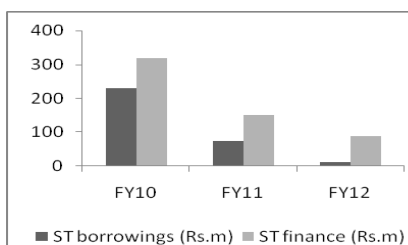
Analysts: Usman Ali Khan
Maimoon Rasheed

Category	Latest	Previous
Entity	BB-/B Oct 22, '13	BB-/B Oct 02, '12
Outlook	Stable Oct 22, '13	Negative Oct 02, '12

Key Financial Trends



* Based on recurring profit before provision and taxation



** Short term financing plus liquid assets

	2011*	2012*	2013*
Total Assets (Rs. in m)	462	340	299
Net Leases (Rs.in m)	212.1	181	156.3
Profit / (Loss) (Rs.in m)	(44.2)	(3.5)	3.4
Equity (Rs. in m)	151.5	169.0	160.7
Liquid Assets %			
Deposits & Borrowings	13.9%	29.2%	249%

*on the basis of net realizable value

Rating Rationale

Grays Leasing Limited (GLL) remains non-compliant with the minimum capital requirement of Rs. 700m that had to be met by June 13. The license of the company to carryout business expired in May 2010. The Securities & Exchange Commission of Pakistan (SECP) approved one year forbearance period to allow the company to meet the equity requirement while restricting it from mobilizing fresh deposits or rollover of existing deposits without prior consent and approval of SECP. The forbearance period expired in July 11 after which SECP has not granted further extension. In this regard, correspondence with SECP is on-going. The breach of equity requirement has raised doubt about the company's ability to continue business as a going concern. In view of this, the financial statements are also prepared on the basis of realizable value of assets and liabilities in addition to historical cost basis. Book value of the equity was reported at Rs. 75.3m (FY12: Rs. 71.9m) at end-FY13; on the basis of realizable / settlement value of assets and liabilities, equity of the company amounted to Rs. 160.7m (FY12: Rs. 169m).

SECP had setup a Non-Bank Financial Sector Reform Committee for revamping the NBFCS sector. The committee, in its report, has proposed that minimum equity requirement of Rs. 50m be introduced for non-deposit taking leasing companies. Any decision in this respect has yet to be taken by the Commission.

Business volumes of GLL have been on a decline since 2008. On account of high incidence of non-performance in lease portfolio, performance of GLL has deteriorated over time. Resultantly, the management has been focusing primarily on recovery against overdue. Simultaneously, fixed assets of the company have also been disposed off to settle outstanding borrowings.

While continuing its focus on recoveries, the company booked selective fresh lease contracts during FY13. GLL transacted 19 (FY12: 1) fresh lease contracts with net lease value of around Rs. 18.7m (FY12: Rs. 2.8m). Net lease portfolio of GLL decreased to Rs. 156.3m (FY12: Rs. 181m; FY11: Rs. 212.1m) by end FY13. The cash inflow from recoveries/rentals and lease key money was sufficient to repay all obligations pertaining to financing and operating expenses. The company was able to retire all outstanding bank borrowings during FY13. GLL availed unsecured loan from associated company with an outstanding amount of Rs. 4m at end-FY13.

The revenue base of the company exhibited sharp decline amidst maturity of most of performing leases booked during prior years and limited fresh business. Simultaneously, administrative expenses were bought down by around 27% mainly through rationalizing employee related costs. Financial charges stood lower on account of considerable decrease in average borrowings and decline in borrowing cost. There was reversal of provisioning to the tune of Rs. 10.6m which allowed the company to post nominal profit of Rs. 3.4m (FY12: loss of Rs. 3.5m) during FY13. A certain level of fresh equity injection is essential for regular operations.

Overview of the Institution

GLL was incorporated as a public limited company in August 1995. The company is listed on the Karachi and Lahore Stock Exchanges. Main sponsors include Grays of Cambridge (Pak) Ltd. and Anwar Khawaja Industries (Pvt.) Ltd., which collectively hold 55.4% shareholding in the company. GLL has a network of 5 branches. The financial statements of the company for FY13 were audited by M/s Riaz Ahmad and Company, Chartered Accountants JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: ENTITY</u>				
22-Oct-13	BB-	Stable	B	Maintained
02-Oct-12	BB-	Negative	B	Reaffirmed
09-Sep-11	BB-	Negative	B	Downgrade
10-Mar-10	BB	Negative	B	Downgrade
01-Apr-10	BBB-	Negative	A-3	Downgrade