RATING REPORT

NBP Leasing Limited (NBPLL)

REPORT DATE:
April 20, 2017

RATING ANALYSTS:
Jazib Ahmed, CFA
jazib.ahmed@jcrvis.com.pk

Sidra Ahsan Qureshi
sidra.qureshi@jcrvis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Rating Outlook	Rating Watch Developing		Rating Watch Developing	
Rating Date	*April 20, '17*		*May 2, '16*	

COMPANY INFORMATION

Incorporated in 1995	**External Auditors:** EY Ford Rhodes- Chartered Accountants
Unlisted Public Company	**Chairman of the Board**: Mr. Tariq Jamali
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. M. Rizwan Masood
National Bank of Pakistan – 99.9%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Non-Bank Financial Companies ***http://jcrvis.com.pk/Images/NBFC.pdf***
Linkages between Parent and Subsidiary companies ***http://jcrvis.com.pk/Images/criteria_parent.pdf***

NBP Leasing Limited

OVERVIEW OF THE INSTITUTION

Incorporated in November 1995, NBPLL is a wholly owned subsidiary of NBP. Since acquiring their leasing license in 2005, the company has been principally engaged in the business of leasing, comprising finance lease only. Financial statements for 2016 were audited by EY Ford Rhodes- Chartered Accountants.

Profile of CEO

Mr. M. Rizwan Masood is the CEO & MD of the NBPLL. He holds an MBA with majors in Financial Management. His work experience spans over a period of 18 years, serving in a number of financial institutions.

RATING RATIONALE

NBP Leasing Limited (NBPLL) is a public unlisted company and was incorporated in 1995 under the Companies Ordinance, 1984. The company is principally engaged in the business of leasing. The ratings assigned to NBPLL take into account the shareholding structure with the company being a wholly owned subsidiary of NBP, one of the largest commercial banks operating in the country with the highest achievable rating of AAA.

NBP, the parent company has decided to merge NBPLL with itself. However, the transaction is awaiting approval from the banking regulator; management expects approval assent for the same in ongoing year.

- Governance structure of the company seems adequate with more than one-third of the Board being represented by independent directors and all board committees being chaired by independent directors. The management team of the company is led by Mr. M. Rizwan Masood who was appointed as the CEO of NBPLL in October, 2015. During 2016, turnover in the company remained stable with no change observed in the management team. Management team at NBPLL comprises professionals with experience in the financial services industry.

- For the past 2 years a declining trend in the lease portfolio has been witnessed, given its merger plans. At end-2016, lease portfolio of the company fell by 22.2% (2015: 13.4%). However, given the delay in prospective merger, Board has directed management to focus on revival of business. Since leasing is an installment based business, thus, booking new business at various intervals is crucial for the company. In case the merger takes place, new agreements will be made which are already documented and vetted by Islamic scholars. Undertaking of further exposures is under development and the company expects new lease arrangements to be worth around Rs. 600m during the ongoing year. Excess cash balances, availability of credit lines and future cash inflows are expected to adequately fund these disbursements. Out of the new disbursements, 90% will be plant and machinery to earn higher depreciation allowance tax benefit.

- The company achieved healthy recoveries as reflected in lower classified leased assets. Consequently, gross infection witnessed slight decrease and was reported at 18.2% (2015: 18.8%, 2014: 20.9%) at end-2016. The decrease would have been of a higher magnitude, had the company's lease portfolio continued to grow as in the normal course of business. Liquidity generated through recoveries/collection, is showcased in sizeable growth of cash & bank balances. Market and credit risk is mitigated by nominal exposure in investments; the company does not intend to make further investments going forward.

- Net Equity of the company has improved on account of retained profits. Assets of the company are largely financed by equity, with liabilities on the lower end and no debt reported as at end-2016. As a result, debt leverage further decreased to 0.02x (2015: 0.10x, 2014: 0.26x). Current ratio indicates that the company has sufficient resources to meet short term obligations. Funding sources in the near future will be limited to the parent bank.

- Given the decline in lease portfolio, income from leasing operations fell; culminating in a lower profit before tax. Moreover, the company acquired lower tax depreciation allowance which translated into an increase in effective tax rate. Accounting for taxation, net profit amounted to Rs. 36.7m (2015: Rs. 50.7m, 2014: Rs. 26.3m) during 2016.

NBP Leasing Limited (NBPLL) Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Total Investments	3.1	2.3	24.4
Investment in Finance Lease	606.9	779.7	900.8
Total Assets	871.0	894.7	962.0
Borrowings	-	50.0	175.0
COI	-	-	-
Subordinated Loans	-	-	-
Net Worth	852.6	816.2	766.1
INCOME STATEMENT	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Net Mark-up Income	77.8	108.7	100.3
Net (Provisioning) / Reversal	41.9	20.8	0.1
Operating Expenses	57.8	61.0	53.7
Profit (Loss) Before Tax	60.6	68.5	46.2
Profit (Loss) After Tax	36.7	50.7	26.3
RATIO ANALYSIS	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Gross Infection (%)	18.2%	18.8%	20.9%
Provisioning Coverage (%)	67.5%	69.4%	62.9%
Net Infection (%)	6.7%	6.6%	8.9%
Efficiency (%)	75.7	56.6	46.2
ROAA (%)	3.2	4.0	2.1
ROAE (%)	4.4	6.4	3.5
Gearing (x)	0.0	0.1	0.2
Debt Leverage (x)	0.02	0.1	0.3
Current Ratio (x)	28.8	6.9	2.8

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	NBP Leasing Limited
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				
20-April-17	A+	A-1	Rating Watch Developing	Reaffirmed on Rating Watch
2-May-16	A+	A-1	Rating Watch Developing	Reaffirmed on Rating Watch
25-Nov-15	A+	A-1		Rating Watch Developing
19-Jun-15	A+	A-1	Stable	Maintained
24-Jun-14	A+	A-1	Positive	Reaffirmed
16-Jul-13	A+	A-1	Positive	Reaffirmed
24-Jul-12	A+	A-1	Positive	Maintained
30-Jun-11	A+	A-1	Stable	Upgrade

Instrument Structure	N/A
Statement by the Rating Team	JCR-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	JCR-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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