

## RATING REPORT

### Grays Leasing Limited (GLL)

**REPORT DATE:**

November 15, 2016

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BB-	B	BB-	B
Rating Outlook	Stable		Stable	
Rating Action	Reaffirm		Reaffirm	
Rating Date	09 Nov'16		01 Dec'15	

#### COMPANY INFORMATION

<b>Incorporated in 1995</b>	<b>External auditors:</b> Riaz Ahmad and Company Chartered Accountants
<b>Public Limited Company</b>	<b>Chairman of the Board:</b> Mr. Khawar Anwar Khawaja
<b>Key Shareholders:</b>	<b>Chief Executive Officer:</b> Mr. Muhammad Tahir Butt
GOC (PAK) Limited (Formerly: Grays of Cambridge (Pakistan) Limited) – 37.2%	
Anwar Khawaja Industries (Pvt) Limited – 17.4%	
General Public – 22.9%	
Mr. Khurram Anwar Khawaja – 6.4%	
Mr. Khawar Anwar Khawaja – 5.9%	

#### APPLICABLE METHODOLOGY (IES)

**JCR-VIS Entity Rating Criteria** *Non-Bank Financial Companies (Mar 2005)*  
<http://www.jcrvis.com.pk/Images/NBFC.pdf>

## Grays Leasing Limited (GLL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>GLL was incorporated as a public limited company in August 1995 and is listed on the Pakistan Stock Exchange (PSX). The company is engaged in the leasing business and is classified as a non-deposit taking non-banking finance company. GLL has a network of 5 branches including the head office</p>	<p>Ratings assigned to Grays Leasing Limited (GLL) take into account its weak financial risk profile. The company continues to face challenges of low business volume, limited funding opportunities and chronic non-performing leases a large part of which remained unprovided. Capitalization indicators remained stressed and limit the institution's risk absorption capacity. In order to fund its operations, the company has arranged a short term unsecured loan from an associated company. Under the changes in the NBFC regulations, the company has opted for non-deposit taking NBFC which requires a minimum equity of Rs. 50m; the company equity at end, June-16 was reported at Rs. 74.6m. SECP has granted the license to the company to undertake leasing business which is valid till May, 2019.</p> <p>New leases booked during FY 16 amounted to Rs. 74.6m (FY15: Rs. 45.4m); these were primarily extended to individuals under vehicle financing for a period of 3 years. Resultantly share of personal leases increased to about one-fourth. Asset quality indicators remain stressed. Gross and net infection ratio improved to 58.6 % (FY15: 62.3%) and 36.4% (FY15: 40.2%) primarily on account of higher lease portfolio, however continues to remain high. Provisioning coverage against overdue leases remained unchanged at 59.6% (FY15: 59.3%). Given the aging profile of the overdue lease portfolio, likelihood of material recovery in the same is considered low.</p> <p>Income from lease operations declined to Rs. 9.7m (FY 15: Rs. 10.7m) owing to lower benchmark rates, while finance expense amounted to Rs. 2.0m (FY15: Rs. 2.1m). As a result, net finance income declined to Rs. 8.0m (FY15: Rs. 8.9m) in FY 16. Net finance income of GLL was not enough to cover its administrative expenses which remained flat at Rs. 11.4m (FY15: Rs. 12.0m), however reversal of provisions to the tune of Rs. 3.4m (FY 15: Rs. 1.5m) supported the bottom line with company reporting net loss of Rs. 0.7m during FY16 (FY15: profile of Rs. 0.1m).</p> <p>Liquidity profile of GLL remained stressed due to weak portfolio quality and lack of funding avenues available. Equity base has eroded in the recent years owing to continued losses. In the absence of fresh equity, net NPLs as a proportion of Tier 1 Equity are sizeable. Going forward, disbursement is expected to continue with focus on recoveries.</p>

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

### Grays Leasing Limited (GLL)

### Appendix I

<b>FINANCIAL SUMMAR</b> (amounts in PKR millions)			
<b>BALANCE SHEET</b>	<b>JUN 30, 2016</b>	<b>JUNE, 2015</b>	<b>JUN 30, 2014*</b>
Investment in Finance Lease (net)	239.9	219.6	299.1
Total Assets	248.0	234.5	305.6
Borrowings	25.0	25.0	15
Lease Deposit Money	138.6	129.6	125.9
Tier-1 Equity	74.6	75.2	75.1
Net Worth	74.6	75.2	156.8
<b>INCOME STATEMENT</b>	<b>JUN 30, 2016</b>	<b>JUN 30, 2015</b>	<b>JUN 30, 2014*</b>
Net Mark-up Income	8.0	8.9	8.8
Net (Provisioning) / Reversal	3.4	1.5	6.6
Operating Expenses	11.4	12.0	11.2
Profit (Loss) Before Tax	0.2	(1.7)	(0.7)
Profit (Loss) After Tax	(0.7)	0.1	(1.1)
<b>RATIO ANALYSIS</b>	<b>JUN 30, 2016</b>	<b>JUN 30, 2015</b>	<b>JUN 30, 2014*</b>
Gross Infection (%)	59.0	62.3	65.2
Provisioning Coverage (%)	60.0	59.3	56.9
Net Infection (%)	36.4	53.0	44.6
Efficiency (%)	54.0	53.9	56.1
ROAA (%)	-0.29	0.04	-0.36
ROAE (%)	-0.93	0.14	-1.43

\*At Net Realizable Value (NRV)

## 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](http://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](http://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](http://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.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES				Appendix III	
<b>Name of Rated Entity</b>	Grays Leasing Limited				
<b>Sector</b>	Non-Bank Financial Institution (NBFC)				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	11/09/2016	BB-	B	Stable	Reaffirmed
	12/01/2015	BB-	B	Stable	Reaffirmed
	12/11/2014	BB-	B	Stable	Reaffirmed
	10/22/2013	BB-	B	Stable	Maintained
	10/2/2012	BB-	B	Negative	Reaffirmed
9/9/2011	BB-	B	Negative	Downgrade	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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