

RATING REPORT

Grays Leasing Limited (GLL)

REPORT DATE:

December 26, 2017

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	26 Dec'17		09 Nov'16	

COMPANY INFORMATION

Incorporated in 1995	External auditors: Riaz Ahmad and Company Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Khawar Anwar Khawaja
Key Shareholders:	Chief Executive Officer: Mr. Muhammad Tahir Butt
GOC (PAK) Limited (Formerly: Grays of Cambridge (Pakistan) Limited) – 37.2%	
Anwar Khawaja Industries (Pvt) Limited – 17.4%	
General Public – 23.5%	
Mr. Khurram Anwar Khawaja – 6.4%	
Mr. Khawar Anwar Khawaja – 5.9%	

APPLICABLE METHODOLOGY (IES)

JCR-VIS Entity Rating Criteria Non-Bank Financial Companies (October 2017)
<http://jcrvis.com.pk/docs/NBFCs%20201710.pdf>

Grays Leasing Limited (GLL)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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.

Profile of Chairman

Mr. Khawar Anwar Khawaja has been associated with Grays of Cambridge (Pakistan) Limited (GCL) since 1990 and is still serving as the CEO of the company. He also serves as a board member of Anwar Khawaja Industries (Pvt) Limited (AKIL).

Profile of CEO

Mr. Muhammad Tahir Butt is serving as a Director – Administration and Finance in GCL since 1987. He also presents on the board of AKIL.

Financial Snapshot

Net equity: 1Q18-Rs.74.0m, FY17-Rs.73.8m

Net Profit/Loss: 1Q18-Rs. 0.3m, FY17-Rs. (0.9)m

The ratings of Grays Leasing Limited (GLL) take into account its weak financial profile emanating from low business volumes, limited funding sources, chronic delinquent portfolio and inadequate capitalization and liquidity. The company has arranged funding from an associated company and the CEO to finance its operations. While the management has a continuing focus on recoveries from infected portfolio, the likelihood of material recovery in this regard is considered low given aging profile of the leases. Meanwhile, the company has been able to build a small clean vehicle leasing portfolio to partly cover its operating costs.

New leases booked during FY17 amounted to Rs. 79.5m (FY16: Rs. 72.4m); number of lease contracts were 33 in number (FY16: 29). New leases were primarily extended to transport and communication sector thereby increasing its proportion to 19.8% (FY16: 16.8%) while the share of individuals remained at 22.4% (FY16: 23.6%). Largest exposure remained in textile and allied sector, though with no further leasing and some recoveries against NPLs, its share has been declining on a timeline basis. By end-1QFY18, gross and net infection ratios, though continue to remain high, improved to 49% (FY17: 55%; FY16: 59%) and 24% (FY17: 33%; FY16: 36%) respectively primarily on the account of higher lease portfolio and lower NPLs. Provision coverage improved by end-1QFY18 to 68% (FY17: 60%; FY16: 60%) on account of recovery of NPLs against forced sale value.

Income from lease operations increased slightly to Rs. 10.1m (FY16: Rs. 9.7m) while finance expense amounted to Rs. 2.4m (FY16: Rs. 2m). Net finance income stood at Rs. 8m in FY17 that is not sufficient to cover operating cost which remained at Rs. 11.2m (FY16: Rs. 11.4m). The company reported a net loss of Rs. 0.9m (FY16: loss 0.7m) during FY17 despite reversal in provisions to the tune of Rs. 2.3m (FY16: Rs. 3.4m).

With nominal losses and profits during the last few years, equity base of the company has largely remained stagnant. However, net NPLs to total equity has remained sizeable. Going forward, the management plans to continue selective leasing with ongoing focus on recoveries.

JCR-VIS Credit Rating Company Limited

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

Grays Leasing Limited (GLL)

Appendix I

FINANCIAL SUMMARY <i>(amount in PKR millions)</i>				
BALANCE SHEET	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15
Investment in Finance Lease (net)	259.7	262.2	239.9	219.6
Total Assets	269.1	268.5	248	234.5
Borrowings	40.0	40.0	25	25
Lease Deposit Money	148.5	148.4	138.6	129.6
Tier-1 Equity	74.1	73.8	74.6	75.2
Net Worth	74.1	73.8	74.6	75.2
INCOME STATEMENT	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15
Net Mark-up Income	2.1	8	8	8.9
Net (Provisioning) / Reversal	0.8	2.3	3.4	1.5
Operating Expenses	2.5	11.2	11.4	12
Profit (Loss) Before Tax	0.4	-0.4	0.2	-1.7
Profit (Loss) After Tax	0.3	-0.9	-0.7	0.1
RATIO ANALYSIS	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15
Gross Infection (%)	49.0	55.0	59.0	62.3
Provisioning Coverage (%)	68.0	60.0	59.6	59.3
Net Infection (%)	23.6	32.7	36.4	53
Efficiency (%)	48.7	52.7	54.0	53.9
ROAA (%)	0.4	0.0	-0.3	0.04
ROAE (%)	1.6	0.0	-0.9	0.14

*At Net Realizable Value (NRV)

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.

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REGULATORY DISCLOSURES

Appendix III

Name of Rated Entity	Grays 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				
	12/26/2017	BB-	B	Stable	Reaffirmed
	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
	10/02/2012	BB-	B	Negative	Reaffirmed
	09/09/2011	BB-	B	Negative	Downgrade
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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