

## RATING REPORT

### Sindh Leasing Company Limited

**REPORT DATE:**

June 27, 2016

**RATING ANALYST:**

Muniba Khan

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**RATING DETAILS**

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A	A-2
Rating Outlook	Stable		Stable	
Outlook Date	Jun 27, 2016		Apr 28, 2015	

**COMPANY INFORMATION**

Incorporated in 2013	External auditors: BDO Ebrahim & Co. Chartered Accountants
Non-Banking Finance Company	Chairman of the Board: Mr. Muhammad Bilal Sheikh
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Rehan Anjum
Government of Sindh - 99.99%	

**APPLICABLE METHODOLOGY(IES)**

JCR-VIS Entity Rating Criteria <http://www.jcrvis.com.pk/Images/NBFC.pdf>

## Sindh Leasing Company Limited

### OVERVIEW OF THE INSTITUTION

*SLCL was incorporated in 2013 as an unlisted public company under the Companies Ordinance, 1984. The company is wholly owned by the GoS. The company is operating with a network of 4 branches. Financial statements for 2015 were audited by M/s BDO Ebrahim and Co., Chartered Accountants.*

### RATING RATIONALE

Sindh Leasing Company Limited (SLCL), a wholly owned subsidiary of Government of Sindh (GoS), is principally engaged in the business of providing lease and working capital financing to corporate and small and medium enterprises.

#### Key Rating Drivers

- **Sponsor Support:** The ratings of SLCL derive strength from its ownership by Government of Sindh (GoS) and strong financial support exhibited by them through a recent plan announced for equity injection of Rs. 1b in 2016 taking total equity to Rs. 2.1b. The company also has placement of funds amounting to Rs. 500m from GoS of which Rs. 250m has been utilized.
- **Board and Management:** In the on-going year, SLCL experienced notable changes at senior management level including appointment of a new Chief Executive Officer and a dedicated head for credit and marketing activities. Both the Board and management team include personnel having experience pertinent to the financial services sector.
- **Composition of Portfolio:** With ease of access to capital, SLCL was able to grow its portfolio substantially in the outgoing year. As the lending activities grow and portfolio seasons, underwriting quality will be tested over time. Moreover, the lease portfolio features client-wise concentration; exposure against top ten clients represented more than two-thirds of the portfolio at end-March 2016. This may need to be addressed by the management, going forward. Credit risk of aggregate lease exposure is considered manageable given the diversified exposures in equipment & machinery and vehicles. The company also plans to diversify its geographical exposure, majority of which belongs to Karachi.
- **Funding and Liquidity:** With lending activities gradually picking up pace, the need for further funding has risen. Currently, SLCL has unutilized funds from GoS and commercial banks. However, the company plans to raise Certificates of Investments for funding its business growth plans going forward. As per recent amendments in NBFC regulations issued by SECP, SLCL will be allowed to raise a maximum 3 times of its equity. Liquidity profile of the company is considered sound given sizeable amount of liquid assets on its books. Excess liquidity will be absorbed as the company forges ahead with its growth plans and COIs are mobilized in the coming years.
- **Profitability:** As the lease portfolio continues to grow, the earnings mix of the institution has evolved with higher income from lending activities. Profitability is likely to depict an improving trend if the company is able to maintain sound asset quality coupled with effective utilization of funds while pursuing its growth targets.

## Sindh Leasing Company Limited

## Appendix I

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b>BALANCE SHEET</b>	<b>March 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Total Investments	309.8	347.7	900.0
Investment in Finance Lease	677.0	357.1	22.5
Total Assets	1,502.0	1,242.4	1,051.0
Borrowings	-	95.0	-
Long Term Placement	250.0	-	-
Lease Key Money	139.2	70.3	4.9
Net Worth	1,083.3	1,059.7	1,027.0
<b>INCOME STATEMENT</b>	<b>March 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Net Mark-up Income	60.8	19.6	0.6
Income from Investments	29.4	92.2	49.7
Net (Provisioning) / Reversal	(5.8)	(5.6)	-
Finance Cost	6.5	0.8	-
Operating Expenses	43.9	47.8	10.6
Profit (Loss) Before Tax	34.2	46.4	39.8
Profit (Loss) After Tax	23.6	32.7	27.0
<b>RATIO ANALYSIS</b>	<b>March 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Gross Infection (%)	-	-	-
Efficiency (%)	48.7	42.8	21.1
ROAA (%)	2.3	2.7	-
ROAE (%)	2.9	3.0	-
Leverage (%)	25.8	10.6	1.9

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 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.

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Sindh Leasing Company Limited				
<b>Sector</b>	Non-Banking Finance Company				
<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>				
	6/27/2016	A+	A-1	Stable	Upgrade
	4/28/2015	A	A-2	Stable	Initial
<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.				
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