

ASKARI LEASING LIMITED (ALL)

RATINGS (JANUARY 2009)

ASKARI LEASING LIMITED

	NEW	PREVIOUS
ENTITY		
Long Term	A+	A+
Short Term	A1	A1
OUTLOOK	Negative	-

HISTORY – LT ENTITY RATING

AA-					
A+	-----				
A	-----				
A-	-----				
	Dec	Dec	Feb	Dec	Dec
	2004	2005	2007	2007	2008

FINANCIAL DATA

PKR (mln)

	30-Jun-08	30-Jun-07
Total Assets	12,383.9	12,050.5
Equity	1,278.0	1,147.9
Profit after Tax	153.2	142.0
ROA %	1.2	1.2
ROE %	12.7	13.2
Total Debt/Equity %	499.8	552.1

ANALYSTS

Rai Umar Zafar
+92 42 586 9504
rai.umar@pacra.com

Rana Muhammad Nadeem
+92 42 586 9504
nadeem@pacra.com

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect the company's strong risk absorption capacity emanating from its sound financial profile. Earlier the management had been pursuing an aggressive expansion in its loan book. However, recognizing the subdued economic environment, the company has adopted a conservative business strategy. Moreover, to arrest any upsurge in NPLs, the company has brought further improvements in its risk management framework while focusing on recoveries.
- The ratings are assigned a negative outlook recognizing the pressure on the overall leasing sector and concerns on the company's ability to maintain its performance prospects in the increasingly competitive market conditions. Meanwhile, any weakening in liquidity profile of the company and/or significant deterioration in asset quality may negatively impact the ratings.

ASSESSMENT

- The leasing sector in Pakistan has been facing serious challenges on account of difficult operating environment amid soaring cost of funds and increasing competition from both investment and commercial banks. Business risk has further amplified as both consumer and commercial borrowers are impacted by the recent economic downturn. This has resulted in an escalation in non-performing loans (NPLs). However, leasing companies have reacted by making their financing terms more stringent to lessen the impact of deterioration in asset quality. The sector's initiatives in curtailing NPLs have become more critical in current time when the economic environment may further dampen the performance.
- During FY08, ALL, with a nominal decline in lease disbursements (FY08: PKR4.07billion, FY07: PKR4.4billion), witnessed a modest contraction in net investment in finance lease. While improving its asset yield in line with rising interest rates, the company efficiently detained its funding cost, thus managing to register an increase in its spreads on YoY basis. This has helped in achieving a healthy rise in its net interest revenue (24%) The contribution of other income is continuously declining due to management's cautious stance towards the capital market operations. Meanwhile, positive impact of higher net interest revenue was largely masked by higher operating and provisioning costs. However, the company maintained its ROE and ROA.
- Going forward ALL intends to consolidate its existing lease book, while pursuing a moderate growth. The company is continuously engaged in strengthening its credit evaluation process – resulting in more stringent loan disbursements. As management has altered its business strategy to focus on improving quality of its loan portfolio, fresh disbursements have been slowed down during 1QFY09, which is expected to continue a similar pattern during the whole FY09.
- Continuing rising trend in NPLs remained a concern for ALL during FY08 (NPL to gross finance ratio: FY08: 9.7%, FY07: 8.7%, FY06: 8.4%). Subsequently the management focused on recoveries in order to arrest the increasing trend in NPLs. The impact has been witnessed lately, as the management curtailed its NPLs. To prevent losses on account of theft and misusing, the company has launched its internal tracking device system for vehicle lease portfolio.
- Fund mobilization through COIs remained the major source of funding (contribution in total funding FY08: 46%) for ALL. In this regard the company benefits from its affiliation with Army, wherein Army and its related institutions contribute significantly – indeed stable – towards total COIs. Going forward, the company intends to increase its reliance on mobilizing funds through COIs, from individuals and non-financial sector entities, while maintaining its borrowings from financial institutions at comfortable level.

PROFILE

- ALL, incorporated in August 1993 and listed on all three stock exchanges, is majority owned by Army Welfare Trust (AWT). AWT, established in 1971, has over the years evolved into a large business conglomerate of the country, with business interest in sugar processing, textiles, real estate development, commercial banking, leasing, cement, general insurance and travel services. ALL offers lease services through a network of 10 branches alongwith a few small liaison offices across the country.
- The eight-member board includes five nominees of AWT, while one nominee each, of the National Investment (Unit) Trust, State Life Insurance Corporation of Pakistan and Mehmood Group. The CEO, Mr. Abdul Waheed, has been working with ALL since end 2005. He has a diversified national and international experience in leasing and other sectors. Prior to joining ALL, he has worked as a senior financial consultant for a multinational company.