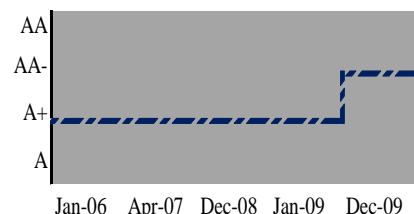


RATINGS (JANUARY 2010)

STANDARD CHARTERED LEASING LIMITED

	NEW	PREVIOUS
ENTITY		
Long term	AA-	A+
Short term	A1+	A1

LONG TERM RATING HISTORY



FINANCIAL DATA

PKR (mln)

	SEP-09*	JUN-09	JUN-08
Total Assets	2095.1	2001.5	1752.0
Equity	743.0	732.2	208.24
Net Income	10.8	(60)	(63.26)
ROE (%)	5.8	n.m	n.m
Debt/Equity	118.1	109.6	459.09
Equity/Assets (%)	35.4%	36.5%	11.94%

*Based on unaudited results for three months

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RATING RATIONALE AND KEY DRIVERS

- The ratings reflect the strengthening of Standard Chartered Leasing Limited profile with the implementation of strong risk management systems, policies and procedures – acquired from the parent, Standard Chartered Bank (Pakistan) Limited. The ratings also recognize the financial and business support to the company by the parent. Meanwhile the company has an improved risk absorption capacity, emanating from relatively low leveraging and limited drag of net NPL's on its equity base.
- In addition to continuous support and guidance in strategy formulation from SCBPL, management's ability to pro-actively align its internal processes and systems with the Bank would be critical. Meanwhile, the development of sustainable business model is important.

ASSESSMENT

- Leasing sector witnessed multifacet challenges in the recent period. High inflation, slowdown in GDP growth and deteriorating law and order situation which reduced the repayment capacity of borrowers thereby resulting in weakened asset quality for the whole leasing sector. In addition, limited availability of funds further heightened the business risk for the whole leasing sector.
- SCLL, with its strong association with SCBPL, has shown resilience in currently prevailing tough economic environment. The company witnessed growth in its gross finances: 1QFY10:5.7%, FY09:24%, FY08:-48% on account of new lease disbursements to corporate (50%) and SMEs (31%), mainly in plant and machinery segment. Overall performance of the company has started improving on account of strengthening net interest margins (1QFY10:6.4%; FY09:4.2%; FY08:1.4%) and rationalization of overall cost structure. Performance in 1QFY10 witnessed further improvement.
- Going forward, the overall business environment for leasing sector is expected to remain challenging. However, SCLL while benefiting from its association with SCBPL, would target the group's existing quality clientele to fuel growth in its lease book. SCLL has been following a conservative strategy where it is focusing relatively less vulnerable sectors, inter-alia pharmaceuticals and packaging, though the sector-wise exposure still remains high in transport and textile at end-Jun09 (transport: 15%, textile: 13%). Furthermore, SCLL's performance is expected to improve on account of adding quality leases. This while improving the earnings ability of its assets further limit drag of provisioning on its profitability.
- Following relatively stringent policies, SCLL has made additional provisions against its impaired portfolio (Loan loss provisions as percentage of Impaired lending: 1QFY10:83%, FY09:82%, FY08:68%). With company's policy of focusing mostly on existing customers of the parent bank, further deterioration in asset quality is less likely. However, the management has formed an early alert committee to regularly monitor any collection delays and to effectively identify accounts where rental collection is uncertain.
- SCLL has largely aligned its systems and processes with the parent. To ensure proper execution of these systems, certain manuals and guidelines have also been instituted while establishing a control mechanism. A comprehensive set of MIS reports is being generated for the top management, and is periodically reviewed by the management committees.
- During FY09, SCLL managed its liquidity comfortably on account of availability of credit lines from the parent. Keeping in view, relatively stable source of funding from Standard Chartered Bank, SCLL is expected to preserve its liquidity profile. During FY09, there has been a significant shift in funding mix of the company from bank borrowings to CoIs (CoIs as percentage of total funding in FY09:52%, FY08:38%), as the company focused to mobilize CoIs capitalizing on the network of Standard Chartered Bank. However, concentration risk remained relatively high as top twenty deposits constitute 38% total CoIs.
- Subsequent to equity injection of PKR 587mln in FY09, SCLL's risk absorption capacity has increased. Lower level of net NPLs (net NPLs to equity: 1QFY10:9.9%; FY09:10%; FY08:65%) also represent a limited drag on its equity base. Going forward, the improvement in performance will further augment the equity base.

PROFILE

- Standard Chartered Leasing Limited (SCLL), with its head office in Karachi is listed on all the three stock exchanges of the country and operates through a network of seven branches spread across major cities. SCLL has been in commercial operations since May 1994. Standard Chartered Bank (Pakistan) Limited is the majority shareholder (86.5%). The bank is rated 'AAA' by PACRA.
- The seven-member board of directors comprises experienced professionals from the financial industry, primarily employees of the parent company. Mr. Badar Kazmi, the CEO of Standard Chartered Bank (Pakistan) Limited, is the chairman of the Board. The CEO of Standard Chartered Leasing Limited; Mr. Ahsan Aziz joined SCLL in September 2008. He is a seasoned banker with a diversified national and international experience.