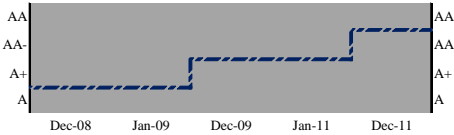


RATINGS (DECEMBER 2011)

STANDARD CHARTERED LEASING LIMITED (SCLL)

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

LONG TERM RATING HISTORY



FINANCIAL DATA

PKR (mln)

	1QFY12*	FY11	FY10
Total Assets	3,617	3,264	2,373
Equity	873	851	775
Net Income	22	76	43
ROE (%)*	10	9	5
Debt/Equity (%)	237	198	144
Equity/Assets (%)	24	26	33

* Annualized

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PROFILE

- Standard Chartered Leasing Limited (SCLL), listed on all stock exchanges of the country, operates through a network of four branches spread across major cities. SCLL has been in commercial operations since May 1994. Standard Chartered Bank (Pakistan) Limited is the majority shareholder of the leasing company with an ownership of 86.45%. The bank is rated 'AAA' by PACRA.
- SCLL has a seven member board, five of whom (including the CEO) are representatives of SCBPL while the remaining two are independent, non executive. Four of the directors hold key positions in SCBPL which represents an active involvement of the parent in SCLL's business. The BoD, with diversified background and expertise, is a key source of guidance to the management. Mr. Arjumand Ahmed Minai, CEO of SCLL joined the company in March 2010.

RATING RATIONALE & KEY DRIVERS

- The ratings reflect SCLL's strong association with Standard Chartered Bank (Pakistan) Limited (SCBPL), the majority shareholder in the company. Over the years the integration between the parent and the company has further strengthened. On standalone basis, though facing challenges of a relatively limited asset base and profitability, the company is embarked on a growth strategy capitalizing on the strong franchise of SCBPL. Also, the high risk absorption capacity emanating from a sound equity base and low leveraged financial profile provides comfort to the ratings.
- The ratings are dependent on the company's ability to sustain its asset quality while building its lease portfolio and further strengthening its risk profile through sustainable profitability. Meanwhile, continuing support from SCBPL, particularly in the areas of risk management and access to its branch network to support business growth as well as funds' mobilization would remain imperative.

ASSESSMENT

- In recent years, the leasing sector has undergone structural changes, with number of leasing firms significantly dropping on account of their mergers with investment and commercial banks. Competitive pressures from the banks, offering similar products at attractive rates amid their lower costs of funds, have posed a challenge of survival to many leasing firms. The number of leasing firms has reduced from ~20 in FY08 to 10 now. Out of these, only a few companies, enjoying strong parentage, managed to remain active in the business.
- SCLL's performance improved considerably over the period despite tough economic environment. The company witnessed an aggressive growth of 40% YoY in the lease book (end-Jun11: PKR 3,285mln; end-Jun10: PKR 2,346mln). The company's lease portfolio was dominated by the SME segment (FY11: 48%; FY10: 47%), followed by the Corporate Segment (FY11: 40%; FY10: 47%), Individuals (FY11: 11%; FY10: 3%) and Consumer Segment (FY11: 1%; FY10: 3%). Sector-wise exposure remained well diversified across different segments with slightly higher exposures in Sugar & Allied (FY11:14%; FY10:6%) and Plastic (FY11:12%; FY10: Nil).
- The company posted profit after tax of PKR 22mln in 1QFY12 - 80% higher YoY - (FY11: PKR 76mln; FY10: PKR 43mln) on account of increase in earning assets with relatively stable spreads (1QFY12: 4.1%; FY11: 4.3%; FY10: 4.3%). The company's bottom line also benefited from reversal of provisioning. The company has managed to curtail its NPLs which stood at PKR 432mln at end-Sep11 (end-Jun11: PKR 432mln; end-Jun10: PKR 522mln).
- Going forward, the company plans to adopt an aggressive growth strategy in expanding its lease book while capitalizing on its association with SCBPL. The lease disbursement target for 2011-12 has been set at PKR 2,325mln as compared to PKR 1,525mln of the previous year (52% higher). Share in consumer leasing is to be enhanced by offering auto lease facility to employees of multinationals and priority customers of banks. In addition, factoring/ vendor bill discounting is to be introduced, whereby receivables of SMEs are financed. The company would continue to cautiously build its credit book. Meanwhile, the company's strength to attract low-cost funding, mainly in the form of CoIs, on account of its association with SC group is expected to help in managing spreads. Nonetheless, continuous support from the parent would remain imperative for further business growth.
- In line with its parent's policy, SCLL has provided for majority of infected leases from the old portfolio (Provisions to Impaired Lending: 80% at end-Sep11). With the company's policy of focusing mostly on existing customers of the group, further deterioration in asset quality is less likely. Nevertheless, the quality of the new lease book will be tested as the book becomes more seasoned. SCLL continues to strengthen its systems and processes for credit approvals and risk monitoring by fully utilizing the parent's inherent strengths in these avenues. Furthermore, with group wide risk management policy, any low-grade leases would be identified early to help the company in maintaining a good quality lease book.
- The company's funding mix entirely comprises CoIs, with exposure to the top twenty deposits declining from 46% at end-Jun10 to 26% at end-Sep11. SCLL has capitalized on the strong franchise of SCBPL to raise funding through CoIs. The company mobilizes COIs on a short-term basis (12 months) while it provides leasing facilities with tenor ranging from 3 to 5 years, thereby, creating a funding mismatch. However, the company enjoys access to SCBPL's branch network and deposit mobilization team which, in turn, helps in the replenishment of deposits on a daily basis. At the same time, it has unutilized credit line of PKR 495mln from SCBPL and long-term lines of PKR 200mln to meet any contingency.
- SCLL's capital structure remained low leveraged as compared to most of its peers. Its equity (PKR 873mln at end-Sep11) is above the current minimum equity requirement of PKR 700mln for leasing companies. Furthermore net NPLs to equity declined considerably over the year (1QFY12: 10%; FY11: 10%; FY10:20%). Thus the overall risk absorption capacity of the company remains strong. However, in case of significant borrowing-led growth, this cushion is likely to be dampened.