



## ASKARI LEASING LIMITED (ALL)

### Ratings (February 2007)

Askari Leasing Limited (ALL)

Entity	New	Previous
Long Term	A+	A+
Short Term	A1	A1

### Financial Data

PKR (mln)

	30-Jun-06	30-Jun-05
Total Assets	10,780.9	8,912.3
Equity	943.1	820.5
Net Interest Rev.	233.6	239.7
ROA %	1.25	1.22
ROE %	13.91	12.96
Total Debt/Equity %	691.92	671.69

### Analysts

Talal Naeem  
+92 42 586 9504  
talal@pacra.com

Shahzad Saleem  
+92 42 586 9504  
shahzad@pacra.com

### Rating Rationale

#### Assessment

- The ratings reflect ALL's ability to sustain performance in a competitive operating environment while maintaining its asset quality. The management is cognizant of increasing pressure on the company's profitability owing to squeezing spreads, and, while improving the spread management, it intends to follow aggressive volume expansion to augment its revenues. At the same time, ALL has identified the need to strengthen its information systems to manage increasing business volumes and the management is devising a comprehensive strategy in this regard.
- During FY06, the company recorded a substantial increase in its net investments in lease (around 27%). However, the benefit of incremental growth could not be translated into higher net interest revenue due to substantial dip in the company's spreads. This was mainly because of the fact that a larger proportion of ALL's lease portfolio was on fixed rate, wherein, the company could not pass on the impact of increase in borrowing costs to its customers. At the same time, operating expenditure also increased, though modestly. However, the company's bottom line was supported by sizable dividend income on NIT units, which were divested subsequently. The lower incidence of prudential provisioning also lent support to the bottom line. As a result, the company's performance, as reflected by ROE, improved slightly during FY06, despite the expanded average equity base.
- Going forward, the management is targeting robust growth in NIL – more than PKR 2.3bln, 24% YoY increase in FY07. In line with its strategy to diversify its leasing portfolio, ALL is increasing focus on construction machinery, goods transportation vehicles, house financing and financing of CNG pumps, though consumer auto leasing is expected to remain the primary focus. In order to manage its spreads effectively the company is also switching to floating interest rate structure for its leases to corporate clients. Additionally, ALL would benefit from the relative stability in interest rates. The company's recent initiatives, while likely to translate into volume expansion, are expected to result in improved performance. The future plans, in terms of growth in size and spread management are substantiated by the IH07 results.

- The strengthening of the credit evaluation function – resulting in more stringent loan disbursements – has helped in minimizing the incidence of fresh infection. Furthermore, due to sizable growth in NIL, net impairment as a percentage of NIL has decreased to 11% (FY05: 12%). Although this is still at a high level, the company is aggressively pursuing recoveries and is hopeful of significant success in the near term.
- ALL has a sizeable proportion of government securities in total assets (FY06: 9%), mainly due to the statutory requirement of maintaining liquidity against COIs. Increase in interest rates has adversely affected the market value of this portfolio resulting in a revaluation deficit of PKR 47mln at end FY06. Nevertheless, the market risk for ALL is considered low, as equity investments constitute an insignificant proportion of the total assets.
- Although declining in relative terms, COIs remain the major source of funding for ALL, representing about 52% of the funding base at end FY06 (FY05: 57%). The company intends to continue focusing on COIs as a major source of funding while attempting to attract a larger proportion of deposits from individuals and non-financial sector entities.
- The company's gearing, despite substantial growth in assets, increased modestly during FY06 due to relatively higher retention. Nevertheless, it continues to be on a higher side compared to most peers in the sector. Going forward, to provide adequate room for the targeted growth, the company, while maintaining higher profit retention, intends to increase its capital base mainly by issuing preference shares.

#### Profile

- ALL, incorporated in August 1993 and listed on all three stock exchanges, is majority owned by Army Welfare Trust (AWT). AWT was established in 1971 and 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. Currently, the Board of Directors of ALL includes five nominees of AWT, while one director each is a nominee of the National Investment (Unit) Trust, State Life Insurance Corporation of Pakistan and Mehmood Group.
- ALL continued to be the second largest leasing company, in terms of both NIL and total assets along with its relatively extensive branch network. The current chief executive, holding this position since 2003, has extensive experience in the financial sector. He continues to effectively pursue the corporate agenda of aggressive growth while implementing a decentralized model for operations.