



Leasing

Atlas Lease Limited

Ratings (May 2001)

	New	Previous
Short Term*	A2	A2
Long Term*	A-	A-
Secured TFC 1 st Tranche	A	A
Secured TFC 2 nd Tranche	A	--

* Applicable to senior unsecured creditors

Summary Data

	2000	1999
Total Assets (Rs mln)	2,137.82	2,215.19
Equity (Rs mln)	323.88	254.98
Net Income (Rs mln)	16.31	16.18
ROA (%)	0.75	0.74
ROE (%)	6.56	6.90
Pre-provision, pre-tax ROE (%)	20.42	16.69
Adjusted ROE (%)	5.96	7.24
Equity/ Assets (%)	12.49	10.41

Analysts

Saira Malik
+92 42 586 9504
saira@pacra.com

Ahsan Hammad
+92 42 586 9504
ahsan@pacra.com

■ Profile

Established in 1987, Atlas Lease Limited (AL) is a joint venture amongst the Atlas Group, the National Investment Trust Limited (NIT) and the Bank of Tokyo-Mitsubishi Limited (BTM). The Atlas Group is the main sponsor with 51% shareholding, followed by the NIT (15.1%) and BTM (5.9%). Subsequent to two bonus issues and a rights issue during the last eighteen months – in order to meet the SECP requirement for increasing the paid-up capital to Rs 200 mln – the shareholding pattern of AL has changed to reflect a greater share of the Atlas Group as the Group acquired the unsubscribed portion of the rights issue. The company is listed on all three local stock exchanges. Ranking 6th among the listed leasing companies in terms of total assets, AL holds a market share of more than 6% in terms of net investment in lease finance (NIL). While the Atlas Group has no contractual obligation to support AL, given the close association of the Group with the management and use of the Group's name "Atlas", in PACRA's assessment, support would be forthcoming, should it prove necessary. This has been demonstrated last year, through the Group's acquisition of unsubscribed portion of the rights issue.

■ Assessment

AL registered a modest improvement in performance during FY00 as demonstrated by an increase of 21% in the net revenue. However, despite a hefty income from short-term placements and a reasonable gain from capital market operations, the profitability was eroded by a high incidence of operating expenses, significant provisioning, and a high current provision for taxation. Nevertheless, AL managed to sustain the profitability at FY99 level by continuing to recognize income through capitalization of overdue rentals on a major rescheduled lease. Continuing unsatisfactory post-rescheduling behaviour of the lease casts some doubts about the justification for realizing this income against which no provision has been made. In FY01, a high magnitude of suspended income with no capitalized income and a sizeable provision requirement against certain chronic cases is expected to deteriorate AL's profitability; yet the downward thrust is likely to be arrested by substantial – and sustainable – contribution to income from other avenues like COT financing and short-term placements. Even though a positive maturity mismatch caused average return on assets to recede in the low-interest rate regime of FY00, the ensuing shrinkage of spreads has been arrested in 1HY01 by replacing expensive funds with low-cost ones. Yet, declining markup rates attributable to fierce competition, especially in vehicle leasing – which is gradually becoming the mainstay of AL's fresh disbursements – may even out the fall in cost of funds. Hence, there may not be a notable enhancement in AL's bottom line in FY01.

The impact of a less than conducive operating environment has been discernible in the form of a decline in NIL, albeit very nominal. The asset quality has deteriorated slightly principally on account of unsatisfactory post-rescheduling behaviour of some chronic cases that were treated as satisfactory last year. Although provision coverage has improved, it may need to be augmented significantly for some chronic cases, particularly the aforementioned rescheduled lease which constitutes 55% of the entire infection. Whereas uncovered exposure has mounted in absolute terms, as a percentage of free equity, it has remained at FY99 level, mainly owing to fresh equity injection, and consequential boost in the loss absorption capacity. Furthermore, while the peer group average for unsecured creditors' coverage declined during the year, AL managed to improve the same ratio on account of shrinkage in the unsecured creditors base coupled with enhanced provisioning.

AL's loan mix is graduating from one dominated by expensive FCY secured loans to one in favour of low-cost LCY borrowings from a multitude of sources. The gearing level stays far below the regulatory permissible level of 1000%, signaling ample scope for leveraged growth. While AL redressed the funding shortfall originating from FCY loans retirement with issuance of CoIs during FY00, these have again been replaced by the 1st tranche of Rs 200 mln of a secured 5-year Rs 300 mln TFC in 1HY01, and AL is presently evaluating issue of the balance 2nd tranche of Rs 100 mln. The terms and conditions of the 2nd tranche remain the same as those for the 1st tranche. There is a first floating charge on all the present and future leased assets and receivables of AL with a 25% margin. As the principal redemption falls due in the 3rd year, cash flows will not be encumbered in the near future. Based on these factors, PACRA maintains the long-term and short-term ratings at A- (Single A Minus) and A2 (Single A Two) respectively, and assigns a long-term rating of A (Single A) to both the tranches of the TFC.