



## Crescent Leasing Corporation Limited (CL)

### Ratings (November 2002) Crescent Leasing Corporation Limited (CL)

Entity*	New	Previous
Long-Term	A+	A
Short-Term	A1	A1
Secured TFC	AA-	A+
<i>First Tranche Rs. 261.79 mln</i>		

\*Applicable to senior unsecured creditors

### Financial Data

PKR (mln)	30/06/02	30/06/01
Assets	1,717.05	1,162.32
Equity	452.18	404.78
Profit after Tax	67.59	48.99
RoA (%)	4.69	4.55
RoE (%)	17.96	14.50
Pre provision & pre tax RoE (%)	26.13	16.60
Equity/Assets (%)	26.33	35.83

### Analysts

**Abbas Ali**  
+92-42-586 9504  
[abbas@pacra.com](mailto:abbas@pacra.com)

**Aamir Naveed Siddiqi**  
+92-42-586 9504  
[aamir@pacra.com](mailto:aamir@pacra.com)

### Rating Rationale

#### Assessment

- The ratings reflect the improving trend in performance emanating from growing asset base, with maintained asset quality, strong provision coverage and higher risk absorption capacity owing to relatively lower leverage. In PACRA's opinion, in the absence of any unforeseen events, the positive developments are likely to be sustained. The ratings also recognise adequate liquidity and availability of diversified funding sources.
- The profit after tax registered a significant improvement on the back of unprecedented capital gains from equity investments during FY02. The NIL, though increasing substantially in nominal terms, has declined as percentage of total assets due to higher deployment in other investments. The upsurge in other income reflects effective management of treasury and capital market operations. These non-core activities are expected to continue augmenting the company's revenue.
- CL has maintained asset quality through its stringent credit approval system and effective post-disbursement monitoring, as reflected by a low level of impairment in the lease portfolio. The concentration of lease portfolio in plant and machinery during FY02 has further overshadowed the vehicle segment, which because of lower risk and higher return, offers attractive prospects. The potential risk in plant and machinery leasing is mitigated through emphasis on SMEs of stable and growing sectors of the economy and a sectorally balanced portfolio. At the same time, the potential losses from the impaired portfolio are fully covered through significantly increased specific and general provisions.
- The company has diversified its funding base and the dependence upon FCY loan has declined. It also successfully completed the issuance of long-term TFCs (second tranche) subsequent to the FYE02. The gearing, despite a rise due to lower retention and increased borrowings to finance growth in NIL and other assets during FY02, remains substantially below the sector trend and the company has ample borrowing capacity. A sizeable portfolio of government and fixed income securities, equity investments constituting highly liquid scrips and availability of unutilised running finance facility as at IQE03, ensure adequate liquidity.
- Going forward, CL is planning to enhance market penetration by enlarging its branch network. The revenue growth is likely to be maintained in the current year on account of increased lease and investment portfolio. The risk profile is expected to improve further through the company's present focus on SMEs, auto leasing and consumer financing. The company has also entered into an alliance with a sole distributor of Samsung home appliances to provide lease facility to corporate employees and self-employed individuals, in addition to CL's exclusive alliance with a marketing company. Owing to increasing competition from commercial banks, pricing of quality risk is likely to remain intensely competitive. However, CL is expected to maintain spreads by reaching the underserved market segments - promising higher returns.

#### Support

- CL does not have any contractual arrangement for support from the shareholders. However, being a CresGroup entity, in PACRA's assessment, support would be forthcoming in case of any contingency – the possibility of which seems remote.

#### Background

- Crescent Leasing Corporation Limited commenced commercial operations in August 1989 and is listed on all three stock exchanges. The major stakes in the company are held by the Crescent Group (CG) - a leading corporate conglomerate in Pakistan- and the Commonwealth Development Corporation (CDC).
- CL's eight members BoD comprises seven representatives of Crescent Group companies and one nominee of CDC. All the directors are qualified professionals and the Chief Executive, also elected as Chairman, Leasing Association of Pakistan, has vast experience of the financial sector in Pakistan.
- The proposed merger of CL with group entities is not being pursued and CG has decided to retain CL as a separate entity envisaging its potential to grow in future. In terms of Total Assets, CL is the eighth largest leasing company in Pakistan and stands fourth with respect to equity base, which reflects a high risk absorption capacity.