

**KASB LEASING LIMITED (KLL)****Ratings (December 2003)****KASB Leasing Limited**

| | New | Previous |
|-----------------|------|----------|
| Entity* | | |
| Long Term | BBB+ | BBB+ |
| Short Term | A2 | A2 |
| TFC | | |
| Secured | A- | A- |
| PKR 200 million | | |

*Ratings applicable to senior unsecured creditors.

Financial Data

PKR (mln)

| | 30/6/2003 | 30/6/2002 |
|--------------------------|-----------|-----------|
| Total Assets | 649.3 | 515.4 |
| Equity | 224.0 | 234.0 |
| Profit after Tax | (3.0) | 22.8 |
| ROE % (pre-prov pre-tax) | 15.05 | 12.73 |
| Debt/Equity % | 105.93 | 55.29 |
| Equity/Total Assets % | 34.50 | 45.40 |

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Rating Rationale**Assessment**

- The assigned ratings reflect an improvement in the company's performance from core operations albeit with a deterioration in asset quality. However, this had no material impact on the company's risk absorption capacity owing to an adequate capital structure. The ratings are placed on rating watch due to the upcoming merger of KLL with KASB Bank.
- Net interest revenues increased in FY03, an outcome of volume expansion and enhanced spreads. The latter was a consequence of a lower proportionate decrease in asset yield than in cost of funds, a function of leases being locked in at higher rates in prior years. Going forward, spreads are likely to normalize with the fresh leasing at prevailing rates. Profit before tax increased accordingly, but was pressurized by a higher provisioning charge because of heightened impairment levels. Additionally, the effect of this enhanced performance was not reflected in net income due to a higher incidence of tax resulting from full compliance with IAS 12 but without any additional impact on the cash outflows. The improvement in performance from core operations was sustained in 1QFY04.
- While impaired leases of PKR 8.3mln were written off the company's books in FY03, net impairment increased due to substantial fresh infection. As this increase was not supplemented by a commensurate enhancement in provisioning, the proportion of net uncovered exposure to equity increased to 6.70% (FY02: 0).
- The lease portfolio was increasingly diversified in this period. While maximum concentration is found in the textile sector, it is being gradually reduced over the years (FY01: 20.07%, FY02: 19.21%, FY03: 15.17%). Leased assets continue to be dominated by machinery, which constitutes 62.5% of the total portfolio. Individual concentration remains high with the top 20 exposures comprising 78% of total lease portfolio (FY02: 56%). However, the potential risk is minimized by the selective inclusion of credit-worthy clients in the company's portfolio.
- While KLL's gearing has increased, this was in line with the company's plan to take on leveraged growth in this period. The company's assets and liabilities are positively matched, exposing the company to a low level of interest rate risk in a stable interest rate scenario.
- In order to fund growth, and replace higher cost with lower cost borrowing, the company issued TFCs of PKR 200mln in FY03. The tenor of the instrument is five years and the coupon rate is weighted average of the last three cut-off rates of 5 year PIBS *plus 225 bps* subject to a floor of 11.50% and a ceiling of 14.50%. The issue is secured by way of first ranking *pari passu* charge over the present and future leased assets and their related receivables with a margin of 33%. Considering the security and margin, the TFC is assigned a rating of A- (A Minus). In the post merger scenario – KLL into KASB Bank – the latter shall be responsible for the contractual obligations under the TFC.

Background

- In FY03, Pak-Apex Lasing Company Limited was renamed KASB Leasing Limited (KLL). The purpose of this was to allow the company, by virtue of its association with the well-reputed KASB group, better recognition in business circles.
- KLL is a medium sized leasing company engaged primarily in the business of leasing, and is listed on all the three stock exchanges. It is a subsidiary of KASB Bank, formerly known as Platinum Commercial Bank, which currently holds 57.93% of the shares of the company. The merger of KLL into KASB Bank is in its final stages. The most significant of the consequent post merger synergies includes the opportunity to tap additional business through the bank's branch network.

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