

**PACIFIC LEASING COMPANY LIMITED (PLCL)****Ratings (December 2003)**
Pacific Leasing Company Limited

	New	Previous
Entity*		
Long Term	BBB	BBB
Short Term	A3	A3
TFC		
Secured	BBB+	

PKR 350 million

*Applicable to senior unsecured creditors.

Financial Data

PKR (mln)

	30/6/2003	30/6/2002
Total Assets	858.5	731.7
Total Equity	247.1	240.7
Net Income	6.4	12.8
ROA (%)	0.80	1.87
ROE (%)	2.92	8.08
Debt/Equity (%)	204.19	167.23

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Rating Rationale
Assessment

- PLCL's ratings reflect the maintained risk profile of the company's asset portfolio supported by an adequate risk absorption capacity and improving performance from core business of leasing, though the overall profitability still remains constrained. The ratings also take into account the difficult operating environment, which places added pressure on financial sector entities. The ratings are placed on rating watch due to ongoing merger of PLCL with First Standard Investment Bank Limited.
- The company, while maintaining its level of net investment in leases, managed to increase its interest-based revenue during 2003. This improvement was engendered by a substantial reduction in financial charges, an outcome of downward interest rate realignment in the economy. With leases locked in at higher rates in prior years there was a consequential improvement in spreads. Going forward, spreads are likely to normalize as these leases mature. PLCL disposed off its equity investments – consisting mainly of a Nagina group entity – at a sizeable loss. The negative impact of this, as against the significant dividend income in the previous year, diluted the impact of improved net interest revenues on the company's bottom line. Moreover, the amortization of deferred costs, mainly comprising discount on the issue of right shares, continue to pressurized net earnings. Despite a relatively lower provisioning charge, the profitability of the company, therefore, remained depressed.
- During 1QFY04, PLCL successfully raised funds through the issuance of TFCs. As the deployment of the procured funds towards leasing will be gradual, a substantial portion of these funds is placed with associated companies, yielding a nominal spread. Meanwhile, net income, due to comparatively higher provisioning for lease losses, remained subdued. Going forward, an improvement is expected in performance on the back of volume expansion in leasing.
- While PLCL managed to minimize any fresh infection, asset quality remains relatively weak, with the company's impaired portfolio constituting 13.5% of the total portfolio at end-Sep 2003. Pakland Cement remains the company's largest non-performing exposure. PLCL has received TFCs issued by the company constituting Series A -- equal to the exposure against principal outstanding; and non-mark-up bearing Series B -- equal to mark-up outstanding and late payment charges. The first repayment was due in June 2003. While the payment against TFC B instalment was received, there was a default on obligations against TFC A. There is, therefore, no underlying change in Pakland Cement's risk assessment. However, an adequate equity base (end-Sep 03 Equity/Total Assets: 23.3%) lends sufficient risk absorption capacity. The company reduced its sectoral concentration, though still being heavily invested in textile sector.
- The company issued TFCs of PKR 350mln during July 2003 for a tenor of 4 years. The instrument is secured by first pari passu charge on all present and future leased assets and related rentals receivables with 25% margin. Principal redemption will be in six equal semi-annual instalments starting after a grace period of 12 months. The profit is payable at the SBP discount rate plus 2pp with a floor rate of 10.5% and a cap of 13.5% per annum. PLCL also has a call option, exercisable at any time during the period from the 18th month till the expiry of 36th month upon giving not less than 60 days notice. In the post merger scenario – PLCL into FSIBL – the latter shall be responsible for the contractual obligations under the TFC.

Background

- Pacific Leasing Company Limited (PLCL) commenced commercial operations in 1994 and is listed on all the three stock exchanges in the country. First Standard Investment Bank Limited (FSIBL) along with Crescent Business Management (Pvt) Limited has recently acquired the majority stake (71%) in PLCL, previously held by the Nagina Group.
- FSIBL and CBM have started a merger of its existing leasing companies (PLCL, Paramount Leasing Company Limited and First Leasing Corporation Limited) into FSIBL. The merged entity will have balance sheet footing of around PKR 6.5bln and is expected to rationalize business structure, bring economies and significantly improve its financial profile.

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