



Pak-Apex Leasing Company Limited (PALC)

Ratings (November 2002)

	New	Previous
Long term*	BBB+	BBB+
Short term*	A2	A2
Secured TFC	A-	A-

*Applicable to the senior unsecured creditors of the company

Pak-Apex Leasing Company Limited

Financial Data

PKR (mln)

	30/6/2002	30/6/2001
Total Assets	515.2	386.4
Equity	241.9	236.8
Profit after Tax	20.2	26.8
ROA %	4.5	8.7
ROE %	8.8	15.5
Equity/Assets %	45.4	58.5

Analysts

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Rating Rationale

Assessment

- The assigned ratings reflect PALC's adequate risk absorption capacity emanating from a sound capital structure and continued low risk lease portfolio despite a slight increase in the level of impairment. The ratings also take into account the sustained growth in the size of the company.
- During the year, the ROE of the company declined to slightly over half that of the previous year owing mainly to provision for doubtful loans. However, going forward, the net income is expected to improve on the back of growing lease portfolio despite the spreads remaining under stress. Barring the impact of amortisation of discount on issue of shares, the cost-to-income ratio declined owing to reduction in general & administrative costs by 6%.
- The leased assets continued to be dominated by plant & machinery representing 66% of total portfolio, and the balance comprising vehicles and equipment. The management maintains sector diversity with maximum exposure at 19% to the textile sector. A high level of concentration exists with top 20 exposures comprising 56% of total lease portfolio. However, the potential risk is mitigated to a large extent due to good credit quality and standing of the customers.
- PALC's policy of focusing on credit worthy clients and close monitoring has helped in maintaining the impairment at a low level. Provisions remain adequate but considering irregular repayment behaviour trends in some of the material exposures, the company might have to make additional provision. Given the earning potential of the company, this should not pose any difficulty without materially impacting on the inherent risk absorption capacity of the company, despite the policy of a high cash dividend pay-out.
- PALC is mainly equity funded providing substantial cushion for unforeseen losses and ample room for leveraged growth. The company is well positioned to raise long and short term borrowing including COIs to attain the low cost sustained funding. At present, the company's long term assets are perfectly matched with long term funds. Hence, the interest rate risk is perceived as low.
- The company is in the process of issuing TFCs worth Rs. 240 mln out of the total shelf registration of Rs. 600 mln. 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 13.25% and a ceiling of 16.0%. While profit is payable semi-annually, the redemption of the TFCs commences six-months after a grace period of one year. The issue is secured by way of first ranking pari passu charge over the present and future leased assets and their related receivables of PALC with a margin of at least 25%. The company is expected to remain well capitalised and low geared even after the issue of the proposed TFC.

Support

- While there is no contractual obligation on the part of KASB to support PALC in the event of a contingency, in PACRA's opinion, such support is likely to be forthcoming, if necessary.

Background

- PALC commenced commercial operations in January 1996 and is listed on all the three stock exchanges. The company is only engaged in lease financing and operates from Islamabad.
- Khadim Ali Shah Bukhari and Co. Limited (KASB) is the principal shareholder of the company. KASB is the second largest amongst the seven corporate brokerage houses listed on the KSE, in terms of both asset size and equity base. PALC is being renamed as KASB Leasing Limited. The company, while maintaining prescribed level of equity, is expected to operate without merger which is likely to foster improved level of efficiency.
- KASB is in the process of acquiring Platinum Commercial Bank Limited. With this acquisition, KASB is well poised to attain a prominent presence in the financial sector.
- The operational control of the company vests in the Chairman who possesses over fifty years of experience and has held key managerial positions in various financial and government organisations.