



**RATING ACTION**

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**RATINGS OF LEASING COMPANIES IN PACRA’S UNIVERSE LARGELY SUSTAIN, ALBEIT DISMAL PROSPECTS OF THE SECTOR**

The Pakistan Credit Rating Agency Limited (PACRA) foresees weakening performance of leasing companies – a consequence of tough operating environment amid tight credit conditions and soaring cost of funds. Business risk is also amplified as both consumer and commercial borrowers are impacted by the recent economic downturn. Meanwhile, leasing companies have made their financing terms stricter to lessen the impact of deterioration in asset quality. The companies have shifted their focus to good quality credit as against the previous practice of following a high growth strategy, pointing towards likely reduction in the size.

In the recent past, non-banking financial sector witnessed consolidation. Various companies, operating with single license, diversified their businesses by obtaining multiple licenses to expand the range of operations and services. PACRA believes further consolidation in the sector is needed to withstand the ongoing financial pressures. However, the companies enjoying association with large and financially sound business groups are expected to maintain their financial standing.

The companies in PACRA’s rating universe (ORIX Leasing, Standard Chartered Leasing, and Askari Leasing) are financially sound though the performance of these companies may come under pressure in the short-term. At the same time, these are expected to maintain their robust financial health and ability to honor financial commitments in a timely manner. Moreover, PACRA also draws comfort from strong parentage, with proven demonstration, of established local and multinational business groups while reviewing the ratings.

**RATING ACTION**

Entity	Long-Term Rating		Instrument Rating		Outlook
	New	Previous	New	Previous	
ORIX Leasing Pakistan Ltd.	AA	AA+	AA+ PKR 2,500mln	AA+	–
Standard Chartered Leasing Ltd.	A+	A+			–
Askari Leasing Ltd.	A+	A+			<b>Negative</b>

**RATING RATIONALE AND KEY DRIVERS**

**1. ORIX Leasing Pakistan Limited (OLP)**

The ratings (Entity long term: **AA**, Short term: **A1+**) reflect OLP’s sustained position as a market leader, the stability and expertise of its management and demonstrated support from its parent company - ORIX Corporation, Japan. At the same time, the adjustment in the long-term rating recognizes the impending pressure on the performance prospects owing to weakening

dynamics of the leasing sector. The subdued economic environment has amplified the business risk reflected in squeezed spreads, and limited growth prospects.

In FY08, the company's profitability was under pressure. Although OLP's size continues to increase, albeit at a decreasing rate, spreads came down further on account of the company's inability to bring down its cost of funds and expand volumes in higher yielding segments. Asset quality, though superior amongst peers, registered deterioration. In 1Q09, the company's profitability remained subdued owing to limited business growth and continuing pressure on asset quality.

The ratings are dependent on the management's ability to proactively realign its strategy in response to changing business dynamics in the sector, so as to sustain a critical size and margins commensurate to its cost structure. In view of deteriorating asset quality, continuous strengthening of the risk management systems remains critical. Meanwhile, the company's inability to arrest declining trend in spreads and/or a material deterioration in the asset quality could have further negative implications for the ratings.

## **2. Standard Chartered Leasing Limited (SCLL)**

The ratings (Long term: **A+**, Short term: **A1**) recognize SCLL's strong association with Standard Chartered Bank (Pakistan) Limited (SCBPL), rated AAA by PACRA. SCBPL has reaffirmed its support through a recent equity infusion (current ownership: 86.5%) alongside developing an experienced management team. The ratings also incorporate the liquidity and funding comfort SCLL is enjoying in the form of preferential credit lines from various financial institutions as well as its own parent at relatively better rates in an era where the whole leasing sector is facing a challenging environment with restricted access to funds.

Since its acquisition by SCBPL, the company suffered from a high turnover in key management personnel. At the same time, the lag in developing a business strategy kept SCLL at a stagnant position. However, during FY08 the company realigned its organizational structure under focused attention of the Board of Directors to restart its business activities afresh. Meanwhile, a business plan has been devised following a cautious stance and lately SCLL has started building a fresh portfolio – an amount of PKR305mln has been disbursed during 1QFY09 (FY08: PKR203mln; FY07: PKR86mln). SCLL's spreads in first quarter remained relatively at higher level mainly due to substantial reduction in its borrowing cost.

Continuing strong support from SCBPL would remain decisive factor for the ratings. At the same time pronouncement of management's initiatives to address company's key weaknesses while strengthening its financial and business profile would be critical for the ratings.

## **3. Askari Leasing Limited (ALL)**

The ratings (Long term: **A+**, Short term: **A1**) reflect the company's strong risk absorption capacity emanating from its sound financial profile. Earlier the management had been pursuing an aggressive expansion in its loan book.



However, recognizing increasing pressure on asset quality and challenging economic dynamics, the company has lately adopted a conservative business strategy. Moreover, to arrest the increasing trend in NPLs, the company has brought further improvements in its risk management framework while focusing on recoveries.

During FY08 ALL largely maintained lease disbursements at last year's level (FY08: PKR4.1billion, FY07: 4.4billion). The company, while improving its asset yield in line with rising interest rates, efficiently detained its funding cost, thus managing to register an increase in its spreads on YoY basis. However, rising NPLs remained a cause of concern for the company. The management, therefore, altered its business strategy to focus on improving the quality of its lease book. Fresh disbursements have slowed down during 1QFY09, which is expected to continue a sluggish pattern during FY09.

The ratings are assigned a negative outlook recognizing the pressure on the overall leasing sector and concerns on the company's ability to maintain its performance prospects and particularly the asset quality in the increasingly tough market conditions. Meanwhile, any deterioration in liquidity profile of the company and/or significant weakening in asset quality may negatively impact the ratings.

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