RATING REPORT

Primus Leasing Limited

REPORT DATE:
December 16, 2021

RATING ANALYST:
Muhammad Tabish
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RATING DETAILS		
Rating Category	**Initial Ratings**	
	Long-term	**Short-term**
Entity	A+	A-1
Rating Outlook	Stable	
Rating Date	*Dec 16, 2021*	

COMPANY INFORMATION	
Incorporated in 2017	**External Auditors:** A.F. Ferguson & Co. Chartered Accountants *(member firm of PwC network)*
Public Unlisted Company	**Chairman of the Board**: Ms. Ayesha Aziz
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Irfan Ahmed
Pak Brunei Investment Company Limited ~100%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Non-Bank Financial Companies (March 2020) ***http://vis.com.pk/kc-meth.aspx***

Primus Leasing Limited (PLL)

OVERVIEW OF THE INSTITUTION

Primus Leasing Limited (PLL) was incorporated on July 13, 2017 as a public unlisted company. The company is licensed to carry out leasing business as a Non-Banking Finance Company (NBFC). PLL is a wholly owned subsidiary of Pak Brunei Investment Company Limited.

Profile of Chairman

Ms. Ayesha Aziz holds over 28 years of experience in Structured Finance, Private Equity & Strategic Advisory businesses. She has been associated with Pak Brunei Investment Company since inception. Previously, she has served in ANZ Grindlays Bank, Pak Oman Investment Company and its subsidiaries, in senior managerial roles. Ms. Aziz is an MBA from IBA Karachi and a qualified Chartered Financial Analyst (CFA).

Profile of CEO

Mr. Irfan Ahmed holds an MBA degree with specialization in Finance from Institute of Business Administration, University of Punjab. He started his career with ORIX Leasing Pakistan Limited (OLP) and was serving as Country Marketing Head at the time of leaving OLP in 2016. He holds cumulative professional experience of over 25 years. He has also been the Vice Chairman of NFBI &

RATING RATIONALE

Corporate Profile

Primus Leasing Limited (PLL), a wholly-owned subsidiary of Pak Brunei Investment Company Limited, was incorporated four years ago in July 2017 and is currently going through a growth phase. The company is involved in the provision of finance leases and loans largely catering to SME segment. At present, PLL operates through head office in Karachi along with a branch office located in Lahore. Going forward, the management plans to expand branch network with the addition of one branch in Islamabad over the next year 2022.

NBFI/Modaraba Industry Profile

As per NBFI-Modaraba Association of Pakistan, the industry comprises 27 Modaraba companies (MoCo), 8 Leasing companies (LCs) and 4 Investment Finance Services companies (IFS). In the leasing industry, subsequent to the regulator debarring by SECP on account of non-fulfillment of minimum capital requirements and adverse financial conditions, there are now only 4 operational leasing companies.

Key Financial Indicators – NBFI/Modaraba Industry

	2019				2020			
Rs. in millions	**LCs**	**MoCo**	**IFS**	**Total**	**LCs**	**MoCo**	**IFS**	**Total**
No. of Companies	**8**	**27**	**4**	**39**	**8**	**27**	**3**	**38**
Assets	10,577	54,084	30,580	**95,241**	10,807	51,585	27,785	**90,177**
Equity	5,319	20,997	10,953	**37,270**	5,366	18,743	12,205	**36,314**
Borrowings	1,293	16,928	12,281	**30,502**	1,178	16,387	8,454	**26,018**
Gearing	24%	81%	112%	**82%**	22%	87%	69%	**72%**
PAT	(115)	(1,315)	1,126	**(304)**	128	(2,098)	779	**(1,191)**
ROA	-1.1%	-2.4%	3.7%	**-0.3%**	1.2%	-4.1%	2.8%	**-1.3%**

Source: NBFI-Modaraba Association (As per latest Year Book 2020)

Amidst Covid-19 pandemic, asset quality indicators in the leasing industry were impacted with increasing trend in infection levels while overall credit risk in the economy remains elevated. As NBFIs/ Modarabas serve SME borrowers usually not covered by banks, credit risk of the industry tends to be higher than that of banking industry clientele. Going forward, new Covid-19 variants (Omicron) and uncertainty of its impact on overall economy and political environment are the key present business risk factors.

Key Rating Drivers:

Strong sponsor strength.

Assigned ratings draw comfort from strong sponsor profile of Pak Brunei Investment Company Limited (PBIC) which is a Development Finance Institution (DFI) engaged in provision of financial assistance to industrial and agricultural projects. PBIC is a joint venture between Government of Pakistan (GoP) and Government of Brunei (GoB); each having an equal ownership. The DFI is rated as 'AA+/A-1+' by VIS Credit Rating Company Limited.

Lease portfolio has witnessed a healthy growth trend. Focus will remain on growing leasing operations with cautious underwriting strategy.

Net investment in lease finance – net off provision crossed the Rs. 1.0b mark during the ongoing year (9M'21: Rs. 1.2b; 2020: Rs. 972.9m; 2019: Rs. 893.2m) on account of increase in lease rentals receivable coupled with higher guaranteed residual value of leased assets. The

Modaraba Association of Pakistan during 2020-21.

average tenure of a lease contract is 3 years while total client base is over 100+ customers with 88 live contracts (as at end-Sept'21). Further, core asset base (net off lease key money) stood higher at Rs. 1.2b at end-9M'21 (2020: Rs. 1.0b) resulting in net lease portfolio to core assets ratio of 66.7% (2020: 62.9%). Reflecting the sustained economic recovery posted in the ongoing year, total disbursements registered a strong growth and amounted to Rs. 937m (2020: Rs. 568m) during 9M'21 while the full year target is Rs. 1.2b. The disbursement target for 2022 is Rs. 1.5b and for 2023 is Rs. 1.8b. Going forward, the management expects growth trend to continue while underwriting will be pursued based on risk assessment.

The overall lease portfolio is considered diversified with exposures in 21 sectors; major sector exposures pertained to Printing & Packaging (20%), Textile Composite (9%), Textile Embroidery (8%), Pharmaceutical (8%), Transport Public (7%) and Auto & Allied (7%). However, client concentration in financing portfolio is on the higher side with top 20 clients representing 63.1% (2020: 63.2%) of total portfolio. As per management, client concentration is mainly a result of prudent and selective underwriting strategy. Geographically, the lease operations have presence in six to seven cities, mainly in the north region, with major concentration in Lahore.

Sound asset quality indicators; risk management and other control functions are supported by the holding company.

With almost entire portfolio being performing, asset quality indicators are considered strong. Moreover, the general allowance for potential lease losses accumulated to around Rs. 18.0m (as at end-Sept'21) providing adequate cushion for risk absorption. Around 22% of the lease portfolio was restructured/ rescheduled during Covid-19 pandemic; nonetheless, almost all clients have started normal rental payments. PLL has a service level agreement in place with the holding company for provision of all core functions and particularly for risk management and internal audit. PLL is the first company in the leasing sector which became IFRS 9-ECL compliant in 2019.

Profitability has depicted healthy growth on a timeline basis.

PLL's net markup income grew by ~9% in 9M'21 (vis-à-vis SPLY), amounting to Rs. 106.0m (2020: Rs. 126.0m; 2019: Rs. 99.5m) on account of higher lease contracts signed. The average spread on finance lease and loan portfolio ranges between 4% and 5%. The administrative overheads and finance cost have remained limited which is also reflected in the healthy efficiency ratio of 32.1% (2020: 30.7%) in 9M'21. Going forward, financial charges are expected to increase on account of higher utilization of short term financing. Overall profitability in prior years was significantly supported by other income on letters of placement (unutilized paid-up capital) issued by holding company. Bottom-line profitability of the company was reported at Rs. 49.6m (2020: Rs. 66.6m; 2019: Rs. 66.3m) in 9M'21.

Capitalization and liquidity profile.

Equity base of the company was reported at Rs. 1.1b (2020: Rs. 1.0b) as at end-Sept'21. The company has paid dividend of Rs. 55.0m (2019: Rs. 65.0m) in 2020 while dividend payout ratio stood high at 83% (2019: 98%). Given healthy growth in leasing operations, PLL has fully utilized the initial sponsor capital; however, credit lines from holding company are in place to meet future funding requirements. Moreover, PLL has an arrangement with the holding company for the sale/transfer of loan/ lease portfolio and receivables in case the need arises for liquidity support. During the ongoing year, credit limit has also been enhanced from Rs. 225m to Rs. 400m. ST running finance stood at Rs. 80.0m as at Sept'21 (2020: Nil). The utilization of funding lines is expected to remain on the higher side going forward.

Adequate corporate governance framework.
Board of Directors (BoD) comprises six members including two independent directors. The Board is chaired by Ms. Ayesha Aziz who is a seasoned professional with cumulative experience of over 28 years in structured finance, private equity & strategic advisory businesses. There are three board level committees namely; Board HR&R Committee (HRRC), Credit Committee (CC) and Audit Committee (AC). The CC and AC are headed by independent directors. The board also has a director who has run a leasing company successfully as CEO before moving to Pak Brunei.

IT function is shared with PBIC while an Oracle based CRM system is being used for portfolio management and reporting purpose. The CRM gives report to CC on a monthly basis while the board reviews leases and loans books on a quarterly basis. Annual review of the portfolio is also done at Holding Company level. The company has in place a qualified senior management team with extensive experience. Financial statements are audited by A.F. Ferguson & Co. Chartered Accountants, which is classified in 'Category A' of SBP's Panel of Auditors.

Primus Leasing Limited **Appendix I**

FINANCIAL SUMMARY
(amounts in PKR millions)

BALANCE SHEET	2018	2019	2020	9M'21
Investments	583.2	260.0	133.0	-
Net Investment in Leases	344.5	592.8	558.6	717.6
Long-term Finances & Loans	40.2	53.7	117.7	217.4
Total Assets	1,154.5	1,289.5	1,366.1	1,546.8
Borrowings	-	-	-	80.0
Total Liabilities	143.5	277.2	342.3	473.3
Paid Up Capital	1,000	1,000	1,000	1,000
Total Equity	1,011.0	1,012.3	1,023.8	1,073.5
INCOME STATEMENT				
Net Mark-up Income	27.6	99.5	126.0	106.0
Other Income	57.3	52.2	26.0	3.6
Operating Expenses	43.1	57.4	57.6	40.6
Provision for Potential Lease Losses	5.2	4.7	8.0	-
Profit (Loss) Before Tax	41.8	94.3	94.3	69.1
Profit (Loss) After Tax	29.6	66.3	66.6	49.6
RATIO ANALYSIS				
Gross Infection (%)	-	-	-	2.4%
Provisioning Coverage (%)	-	-	-	62.6%
Net Infection (%)	-	-	-	0.9%
Efficiency (%)	60.2%	38.2%	30.7%	32.1%
ROAA (%)	2.7%	5.4%	5.0%	3.4%
ROAE (%)	2.9%	6.6%	6.5%	4.7%
Current Ratio (x)	64.5	17.3	6.0	3.0

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

<table>
<tr><th colspan="2">REGULATORY DISCLOSURES</th><th>Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td colspan="2">Primus Leasing Limited (PLL)</td></tr>
<tr><td>Sector</td><td colspan="2">Non-Bank Financial Institution (NBFC)</td></tr>
<tr><td>Type of Relationship</td><td colspan="2">Solicited</td></tr>
<tr><td>Purpose of Rating</td><td colspan="2">Entity Rating</td></tr>
<tr><td>Rating History</td><td colspan="2">
<table>
<tr><th>Rating Date</th><th>Medium to Long Term</th><th>Short Term</th><th>Rating Outlook</th><th>Rating Action</th></tr>
<tr><td colspan="5">RATING TYPE: ENTITY</td></tr>
<tr><td>16/12/2021</td><td>A+</td><td>A-1</td><td>Stable</td><td>Initial</td></tr>
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</td></tr>
<tr><td>Instrument Structure</td><td colspan="2">N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td colspan="2">VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.</td></tr>
<tr><td>Probability of Default</td><td colspan="2">VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.</td></tr>
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<tr><td>Due Diligence Meeting Conducted</td><td colspan="2">
<table>
<tr><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>Mr. Irfan Ahmed</td><td>Chief Executive Officer</td><td rowspan="2">Nov 24, 2021</td></tr>
<tr><td>Mr. Zia Mohiuddin</td><td>Chief Accounting Officer</td></tr>
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