

Financial analysis of askari leasing assignment

Business



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ASKARI LEASING LIMITED “ ANALYSIS OF FINANCIAL STATEMENTS FINANCIAL YEAR 2009” OVERVIEW OF THE COMPANY: Askari Leasing Limited (ALL) was incorporated in Pakistan as a public limited company on August 1, 1993 and was granted certificate of commencement of business on November 3, 1993 with a capital base of Rs 100 million. As of June 30, 2009, its total equity was over Rs 1.4 billion while its balance sheet was nearly Rs 11.8 billion. The company is controlled by the Army Welfare Trust (AWT) which owns 57.66% of the company's stock.

Its 1,192 individual shareholders own 5.886% shares. Remaining shares are with other institutional investors and employees. It has a presence in the consumer, transport, communications, textiles, power and healthcare sectors. The company also offers Certificates of Investments for various durations, both short-term and long-term. Some of its products are as follows: Askar, ALL's flagship products which has been synonymous with the concept of auto leasing in the country, Ask Life, Industrial Lease, Certificates of Investments, Ask Overseas and Ask Power.

Its other sister concerns are Askari Commercial Bank Ltd, Askari General Insurance Company Limited, Askari Cement Company Limited, Askari Aviation (Pvt) Ltd, Askari Associates (Pvt) Limited, Askari Information Systems Limited, Askari Guard Limited. Askari Leasing Ltd is operating from 5th Floor, AWT Plaza, The Mall, and Rawalpindi Cantt where it's registered and head offices are situated. It has strong presence in the important commercial centers across the country through its elaborate branch network.

It has a total of 10 branches in various cities across Pakistan such as Karachi, Lahore, Rawalpindi, Islamabad, Peshawar, Faisalabad, Multan, Sialkot and Gujranwala. PACRA has maintained Askari Leasing's entity rating of A Plus for long-term and A1 for short-term obligations based on results of June 30, 2007. It has strong presence in the important commercial centers across the country through its elaborate branch network. It has a total of 10 branches in various cities across Pakistan such as Karachi, Lahore, Rawalpindi, Islamabad, Peshawar,

Faisalabad, Multan, Sialkot and Gujranwala. **INDUSTRY BACKGROUND:** There are a total of 27 companies, which comprise the leasing sector of Pakistan. These include 16 leasing companies, 4 investment banks, 2 investment companies and 5 Modarabas. In 1997, 32 leasing companies were operational in the country. This number has been decreasing since then, especially after 2000 when the minimum paid-up capital requirement for leasing companies was raised to Rs 200 million which led to mergers and acquisitions.

The recent performance of the leasing sector was affected by strong competition from commercial banks, which are increasingly offering products and services similar to that of NBFCs, including leasing companies. This, along with the slowdown in private sector credit off-take, decreased new business volume of members by 14% to Rs 36 billion in 2007, compared to Rs 41 billion in 2006. The total assets of the leasing sector increased to Rs 128 billion in 2007, a 4% rise from Rs 123 billion in the year before that. During the same period, investments in lease finance decreased to Rs 73 billion in FY07 from Rs 75 billion in FY06, while the revenues increased <https://assignbuster.com/financial-analysis-of-askari-leasing-assignment/>

marginally by 2% to Rs 15 billion from Rs 14.7 billion. Increasing interest rate environment resulted in sharp upsurge in borrowing costs which were higher by 14% at Rs 8.5 billion from Rs 7.4 billion. The average spread, which is described as the difference between the average rate of cost of funds and lending rates, decreased to below 2% jeopardizing the profitability of the sector which reached to Rs 635 million in 2007 from Rs 2.06 billion in 2006. CREDIT RATING:

The Pakistan credit rating agency limited (PACRA) has maintained Askari Leasing's entity rating of A Plus for long-term and A1 for short-term obligations based on results of June 30, 2008. RECENT RESULTS 1st Quarter 2010: The lease income decreased by Rs 3 million (1.17%) as compared to same period 2008 due to decline in the loan portfolio because of high interest rate levels and slowdown in economic activity in Pakistan. On the other hand, the other income shows a decline of Rs 11.3 million (57.75%). The reason is the one time record of capital gain on the disposal of investment property in the quarter ending 2008.

The financial charges decreased by 6.2% due to replacement of high interest liabilities with lower rate liabilities. However, general and administrative expenses have been increased by 6.5%, which is nominal in light of the inflationary pressures. Lease income was Rs 262 million, which is high from the previous quarter. Profit before Tax was recorded at Rs 41 million, a 12.7% decline. Profit after Tax was recorded at Rs 32 million a decline of 13.5%. As the future performance of Pakistan's economy gets better, we can hope that ALL does better. FINANCIAL PERFORMANCE FY09

Although the first half of FY09 was relatively tough for ALL but it recovered somewhat in the 2nd half of the year. There was an increase in the total revenue by 9.8% to reach the level of Rs 1.29 billion in FY09 from Rs 1.17 billion in FY08. A 9.8% growth in revenue, despite the increased expenses of the company combined with greater allowance for potential lease losses have led to an 8.1% rise in before tax profit for the period at Rs 210 million. The profit after tax for the period stood at Rs 160 million, which is 4.5% greater than the net profit of FY08. The Liquidity position of ALL improved in FY09.

There was an incline seen in Current Assets and a decline in Current Liabilities, side by side with an increase in the company's income relative to its expenses. Considering the current ratio, which was 1.22 till the year-end of 2008, but currently it has gone up to 1.46 at the year-end. The main reason for this trend was the decrease seen in the current liabilities at 10%, in contrast to an increase in the current assets of 7%. Although there was 146% growth seen in ALL's investments due to a five-time increase in the held-to-maturity investments (specifically short-term placements), there was a 10% increase in current portion of net investment in the lease finance, which makes over 80% of all current assets. The current liabilities saw a 10% decline in total, due to a decline of 69.4% in short-term borrowings. On the contrary, an increase of 12.5% in current maturity of long-term liabilities was seen. On the other hand, the Income-to-Expense Ratio of the company increased very marginally to 1.27 in FY09 from 1.26 in FY08. This was an obvious result of greater growth rate of Total Revenue, at 9.8%, against the lesser growth in expenses of 8%. The debt management picture of ALL has

been on a path of deterioration. The company was hard hit by the increased financial costs arising out of the incidence of higher interest rates in the economy. The net profit for the period was up by 4.5%, which then translated to 4.4% higher EPS. In FY08, the EPS stood at Rs 2.96; in FY09, the EPS further increased to Rs 3.09. RECENT DEVELOPMENTS Net income for the year increased by 4.5% from Rs 153 million in FY08 to Rs 160 million in FY09. The Total Revenue had increased by 39.8% to Rs 1.9 billion in FY09, and the expenses of the company grew at a rate of 8.5%. Combined with greater risk aversion policies of the companies seen in greater provisioning costs in response to the harsh economic conditions, the overall result was not as high a net income growth as should have been.

Furthermore, the company saw its balance sheet grow by a relatively high 13%. PROFITABILITY ANALYSIS: Considering the profitability of the company, since FY04, the Gross Profit Margin has remained between 16.2% and 16.7%, the only exception being a gross profit margin of 20.5% in FY06.

A similar trend has been seen in profit margin, which remained between a tight range of 13.1% and 13.2%, although soaring to 15.4% in FY06 and falling to 12.4% in FY09. This trend is due to better performance in 2006 by the company, which also yielded record earnings per share of Rs 3.63. The Return on Assets for ALL has remained very stable in the last five years, hovering between 1.2% and 1.4%. In FY08, the ROA was 1.24%, same as the year before but has significantly increased to 1.35%. This was mainly due to a decrease in the Total Assets by 4.5% along with an increase of 4.5% in Net Income compared to FY08's figures. The Return on Equity had been ranging from 13% to 13.2% until 2007, only jumping in 2006 to the level of

16. 2% mainly due to the phenomenal 51% growth in after-tax profit for that year. If compared to the industry, ALL has been successful in having a steady ROE. In that respect, ALL has performed better than average for its shareholders. However, competitors like Orix Leasing have managed to give better returns to its shareholders compared to the company. In FY08, the ROE declined slightly by half a percentage to 12. % and further declined to 11. 8%. This was primarily because the company s equity grew by 13% on the back of issuance of bonus shares and increase in funds of capital and general reserves. This growth was greater than that in the net income, culminating in a decline in this 2009 s ROE. LIQUIDITY ANALYSIS The liquidity position of the company has been constantly declining since FY04 when the Current Ratio was 1. 53 and down to 1. 22 in FY08. In contrast, the industry s Current Ratio has been actually increasing for the last few years from 0. 92 in FY05 to 1. 15 in FY08.

Yet, ALL s current ratio is still above the industrial average. Moreover, the trend of a declining current ratio is also seen in competitors of ALL. In FY09, the current ratio of the company however rose to 1. 46. This was aided by a rise in the Current Assets by 7% compounded by a fall in the Current Liabilities by 10%. This ratio is marginally better than one of its competitor in the industry, Orix Leasing, which shows that ALL can generate a greater income while incurring a lower level of expenditure compared to other companies. The Income-to-Expense Ratio improved marginally to 1. 27 in FY09.

Although Administrative and General Expenses did increase, but financial and bank charges, which form a greater portion of the total expenses

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increased by 8.9%. This led to an overall growth in expenses of about 8.5%. But since the income component exceeded the expenses growth by only 1.3%, the income-to-expense ratio only slightly improved.

DEBT MANAGEMENT

As far as debt management is concerned, Askari Leasing can be considered as a company that relies mostly on debts for financing of its assets rather than equity. Since the financial year 2004, the Debt-to-Assets Ratio of Askari Leasing Ltd has been ranging from 0.0 or 0.91. Compared to the same ratio of 0.64 of Orix Leasing, it can be noted that a much greater portion of ALL's assets is financed by debt. The insignificant changes in total assets and total liabilities in FY09 result in maintenance of the ratio at its historical levels. In contrast, Debt-to-Equity Ratio is stable. Till FY06, it saw an increasing trend reaching a figure of 10.36, after which it has been consistently declining, down to 7.71 in FY09. This is rather opposed to the trend by some of ALL's competitors whose debt-to-equity ratio has been on a constant rise.

ALL's rising and then falling trend was due to the fact that the company had not increased its equity substantially until FY06 had passed. Due to the rise in the common stock and the reserves of the company ever since, the debt-to-equity has been on a decline.

MARKET VALUE

Upon analyzing the Market Value of Askari Leasing Ltd, we see that it has been relatively steady in its Earnings per Share. Being a top performing year, 2006's EPS was a record Rs 3.63. The EPS in FY09 was Rs 3.09 as compared to Rs 2.96 of the previous year. It should be noted that the EPS average for the industry is well below that of ALL, being at Rs 0.4 in FY07 when ALL's EPS stood at Rs 3.30.

However, there are firms in the industry that have consistently generated a higher EPS than ALL.

FUTURE OUTLOOK

The Board of Directors of ALL has

given an in-principle approval to initiate discussions for a possible merger with AKBL. Even the SBP has granted in-principle approval to both companies to conduct due diligence of each other. The management, however, does not approve of the BoD decision to merge with AKBL and is keen on shaping ALL's future in terms of lucrative financial position and performance.

Pakistan's economy has been going through very testing times. This is true for the financial sector as well of which leasing companies are an integral part. The constantly rising interest rates in the economy and breakneck inflation have proven as deterrents for potential lease customers. Even the industrial customers would be less willing to lease machinery or equipment from the leasing companies, as the cost of doing so would be too high keeping in mind how poorly the industrial sector is expected to perform in the future.

The financial performance of 2009-10 depends on how the above mentioned challenges are pragmatically confronted. Candid and target-oriented measures, which are underway, shall strengthen and underpin the recovery process and result into the stability of the micro and macroeconomic fundamentals. Another challenge that ALL and other leasing companies will have to continue to face is the competition with the commercial banks. They are increasingly offering products similar to the leasing companies and also have greater penetration in the market.

Looking at the distribution of assets financed by lease, Askari Leasing Ltd, like many other leasing companies, has been heavily engaged in leasing vehicles, while plant and machinery have been leased too. Unfortunately,

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with the high cost of financing due to increased interest rates and inflation premiums, the demand for vehicles and their leasing has been dropping. Plus, the cost of automobiles themselves has risen due to increased steel prices (till a few months back), rising energy costs and a major depreciation in the rupee value. All these factors combine to discourage demand for leasing vehicles.

Therefore, it can be expected that leasing companies like ALL will be hit hard in the future. Nearly 70% of the company's leasing activities is in the form of Consumer Facilities, which will also be negatively affected by high interest rates, soaring inflation and the resulting lack of purchasing power of the potential customers. Although the leasing sector has historically aimed to provide its services to the SME sector, there still is unmet demand from the SMEs. According to an estimate, financial services are only accessible to 20% of the country's population.