

Leasing Industry in Pakistan: A Comparison of Financial Performance of Leasing Companies

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Abstract

Leasing institutions or companies are the major component of financial system. The intend of this study is to classify the leasing companies on the basis of financial ratios and to make horizontal and as well as vertical analysis among leasing companies for the period 2006-2009. Ten leasing companies out of ten companies are analyzed. This study concludes that ranking of leasing companies on the base of net investment in finance lease is different from the ranking based on return on assets (ROA), return on equity (ROE), return on revenues (ROR) and lease ratio (LR) and the ratios such as ROA, ROE, ROR and LR are negative in 2009 due to the net loss after tax. This study is only and only for academic purposes. Furthermore, all the results of study are fully matched with the results reported by State Bank of Pakistan (central bank of Pakistan).

Key words: Financial performance, Leasing, ROA, ROE, ROR, Lease ratio, Pakistan

1. Introduction

An efficient financial system is an effective tool for funds mobilization among institutions, investors and savers. In Pakistan, Securities and Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP) are responsible for betterment of financial system (Alam et al., 2011; Ahmad et al., 2011) argued that financial institutions are the part of financial system and these financial institutions play a role in the economy development. They are also helpful in attaining the efficient money and capital markets in a country to facilitate the investors. Since 1947, many structural measures have been taken for the establishment and growth of an efficient financial system. Therefore, a leasing company came into existence in 1984. Initially, lack of awareness to corporations and public, national wealth pilferage, economic managers' mismanagement and political instability were the main hurdles in the path of success of leasing sector. In current senerio, competition with banking sector, lack of requied capital, increase in discount rate & interest rate and lack of confidence of public in a highly dynamic conditions of a country are the main hurdles. The purpose of this study is to analyze the financial data of leasing companies for the period of 2006-2009 in order to classify the leasing companies on the basis of return on assets (ROA), return on equity (ROE), return on revenue (ROR), net investment in finance lease to total assets and lease ratio (L.R), and to report the better financial period since 2006.

Return on assets, return on equity, asset and liability management, return on revenues, net investment in finance lease to total assets and lease ratio are effective measures and suggested by State Bank of Pakistan (SBP) statistical bulletin to evaluate the performance & efficiency of an leasing industry and to classify the leasing companies. Elizabeth & Elliot (2004) described that financial measures such as capital adequacy (CA), return on assets (ROA) and interest margins (IM) are calculated positively with customer service quality. Many research studies have been focused on the assets and liabilities management (Caddy, 2000; Richard & James, 2003; Ruth, 2001). Tektas & gunay (2005) elaborated that controlling and lowering risks and maximization of profit is required for efficient assets and liabilities management. Raza et al. (2011) already has used return on assets and return on equity to classify the investment banks. Tarawneh (2006) and Raza et al. (May 2011) concluded that efficiency and effectiveness are independent factors. There is no condition that if a company has good efficiency, should also has good effectiveness always. In Pakistan, no prior study has come to seen on the basis of ratio analysis on this topic.. Section 1 contains introduction, section 2 describes data and methodology, section 3 expresses the results and analysis and section 4 states the conclusions.

2. Data and Methodology

To accomplish the research purpose, all the data have been retrieved from Securities & Exchange Commission of Pakistan (SECP), State Bank of Pakistan (SBP), audited financial statements leasing companies. All the leasing companies are selected for analyses for the period of 2006-2009 (see appendix).

Financial ratios are:

- i. Return on assets (ROA)
- ii. Return on equity (ROE)
- iii. Return on revenue (ROR)
- iv. Net investment in finance lease to total assets
- v. Lease Ratio (LR)

3. Results and Analysis

Comparison of leasing companies on the basis of financial ratios

Table 01: Return on Assets (ROA)

Leasing Company	Value in Percentage (%)				
	Years				
	2006	2007	2008	2009	Average
Askari	1.43	1.22	1.24	1.35	1.31
Grays	0.90	0.89	-0.01	-5.27	-0.87
N & R	2.55	-70.64	-0.66	-55.37	-31.03
Orix	1.67	1.28	0.01	-1.71	0.31
Pak-Gulf	1.41	0.47	0.02	2.11	1.00
SME	1.49	1.60	0.00	-8.01	-1.23
Saudi Pak	1.54	0.83	0.01	-7.76	-1.35
SLC	2.26	0.75	0.04	-9.02	-1.49
Sigma	2.92	3.72	0.04	-11.23	-1.14
SCL	0.01	-8.39	-0.04	-3.00	-2.86

Source: Compiled from audited financial statements of leasing companies and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009

Figure 01

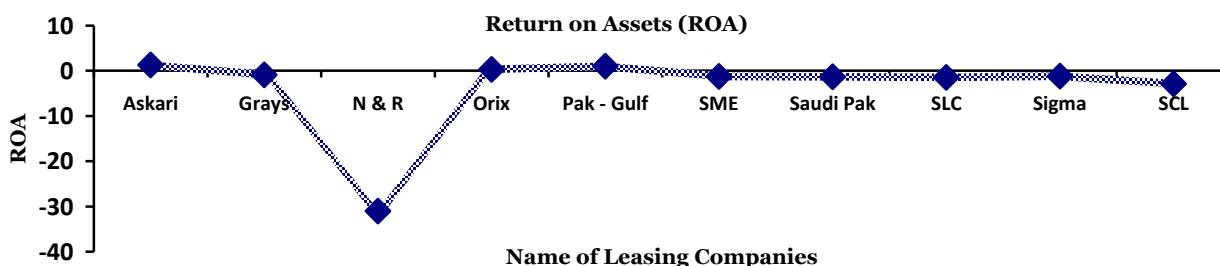


Table 01 & figure 01 are showing the data regarding return on assets (ROA) of leasing companies which were working in Pakistan during the period of 2006-2009. This ratio is used to measure the management efficiency to know that how the assets are utilized to generate the revenues. Askari has the highest ROA from others whereas N & R has the lowest ROA.

Table 02: Return on Equity (ROE)

Leasing Company	Value in Percentage (%)				
	Years				
	2006	2007	2008	2009	Average
Askari	16.24	13.25	12.75	11.13	13.34
Grays	5.54	5.76	-0.04	-27.96	-4.18
N & R	4.70	-754.35	1.46	30.43	-179.44
Orix	17.05	14.04	0.10	-22.48	2.18
Pak-Gulf	3.91	1.09	0.04	4.46	2.38
SME	5.95	7.05	0.02	-19.95	-1.73
Saudi Pak	14.00	8.29	0.11	-210.94	-47.14
SLC	22.53	6.67	0.36	-165.81	-34.06
Sigma	11.86	16.12	0.16	-22.15	1.50
SCL	0.07	-86.14	-0.30	-8.15	-23.63

Source: Compiled from audited financial statements of leasing companies and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009

Figure 02

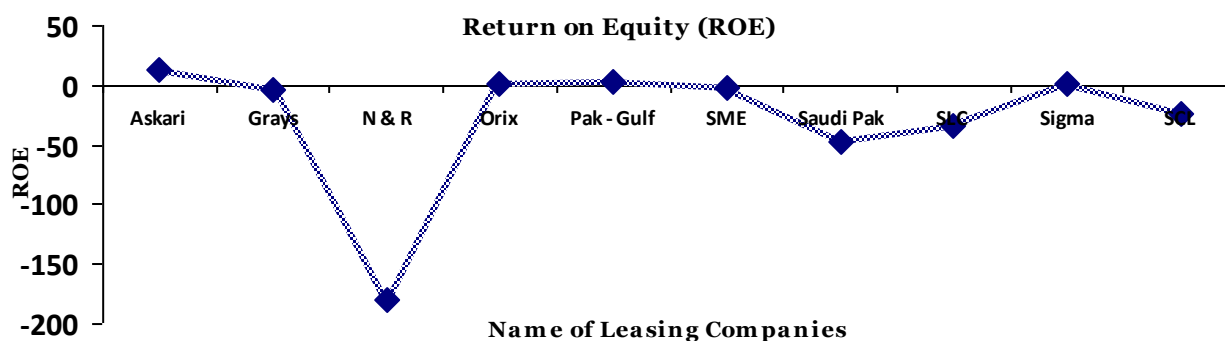


Table 02 & figure 02 are displaying the data regarding return on equity (ROE) of leasing companies which were working in Pakistan during the period of 2006-2009. This ratio is used to measure the efficiency of management that how much revenues are generated by utilizing the owners' equity. Here, Askari has the highest ROE from others whereas N & R has the lowest ROE.

Table 03: Return on Revenues (ROR)

Leasing Company	Value in Percentage (%)				
	Years				
	2006	2007	2008	2009	Average
Askari	16.53	13.14	13.99	12.43	14.02
Grays	4.97	9.50	-0.07	-53.16	-9.69
N & R	19.27	-430.38	-1.34	-48.00	-115.11
Orix	17.15	11.39	0.08	-13.26	3.84
Pak-Gulf	17.28	5.20	0.21	25.13	11.96
SME	16.58	17.85	0.05	-58.51	-6.01
Saudi Pak	14.45	7.51	0.08	-67.63	-11.40
SLC	21.18	6.86	0.21	-180.55	-1.86
Sigma	32.60	38.71	0.35	-67.98	0.92
SCL	0.09	-76.97	-0.35	-33.34	-27.64

Source: Compiled from audited financial statements of leasing companies and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009

Figure 03

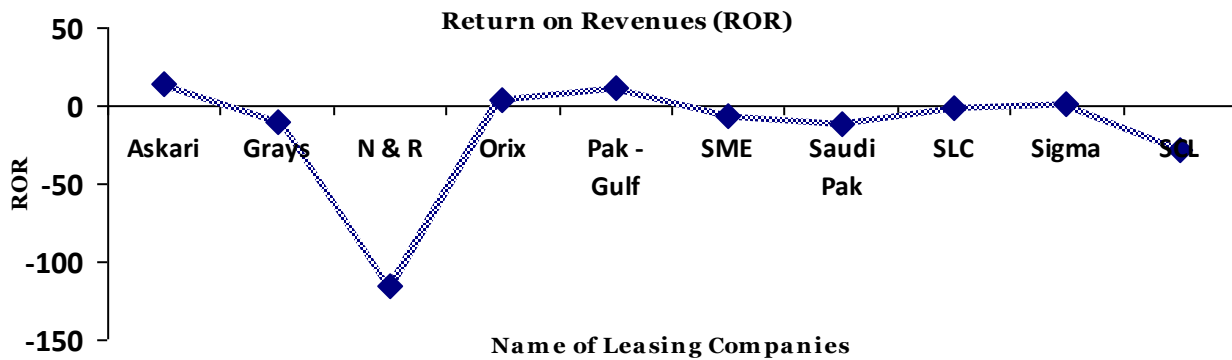


Table 03 & figure 03 are describing the data regarding return on revenues (ROR) of leasing companies which were working in Pakistan during the period of 2006-2009. This ratio is used to measure the profitability of leasing companies and we can calculate this ratio by dividing the net income of a period with revenues of that period. Here, Askari is at first in ranking and N & R is at last in ranking.

Table 04: Net Investment in Finance Lease to Total Assets

Leasing Company	Value in Percentage (%)				
	Years				
	2006	2007	2008	2009	Average
Askari	58.28	57.53	55.77	51.37	55.74
Grays	58.41	53.36	0.49	17.64	32.48
N & R	13.06	13.05	0.09	22.42	12.16
Orix	33.44	36.55	0.47	35.97	26.61
Pak-Gulf	53.66	45.31	0.54	55.34	38.71
SME	64.39	62.96	0.58	57.04	46.24
Saudi Pak	29.72	34.89	0.40	31.86	24.22
SLC	40.35	45.68	0.06	2.67	22.19
Sigma	52.57	45.59	0.40	28.45	31.75
SCL	54.07	44.25	0.32	52.15	37.70

Source: Compiled from audited financial statements of leasing companies and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009

Figure 04

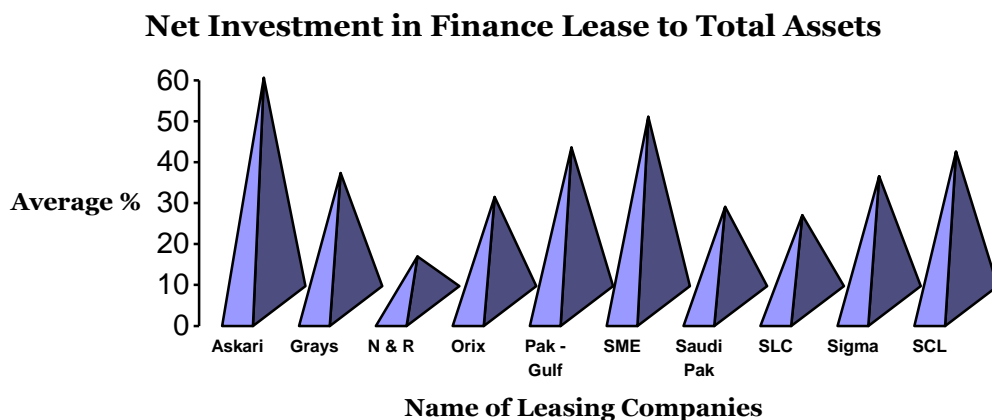


Table 04 & figure 04 are demonstrating the data regarding net investment in finance lease to total assets of leasing companies which were working in Pakistan during the period of 2006-2009. This ratio shows the existing relationship between the total assets and net investment in finance lease. Askari is at first in ranking and has highest ratio from others, whereas N & R is at last in ranking and has the lowest ratio.

Table 05: Lease Ratio (LR)

Leasing Company	Value in Percentage (%)				
	Years				
	2006	2007	2008	2009	Average
Askari	81.30	80.89	87.52	78.85	82.14
Grays	49.47	89.24	0.90	89.72	57.33
N & R	52.34	66.78	0.39	24.52	36.01
Orix	87.78	91.22	0.84	84.12	65.99
Pak-Gulf	98.05	96.24	0.98	90.65	71.48
SME	91.28	90.57	0.86	87.76	67.62
Saudi Pak	65.26	66.60	0.64	73.72	55.07
SLC	58.11	75.09	0.44	185.49	79.78
Sigma	92.77	86.31	0.86	89.44	67.35
SCL	89.48	87.72	0.83	91.96	67.50

Source: Compiled from audited financial statements of leasing companies and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009

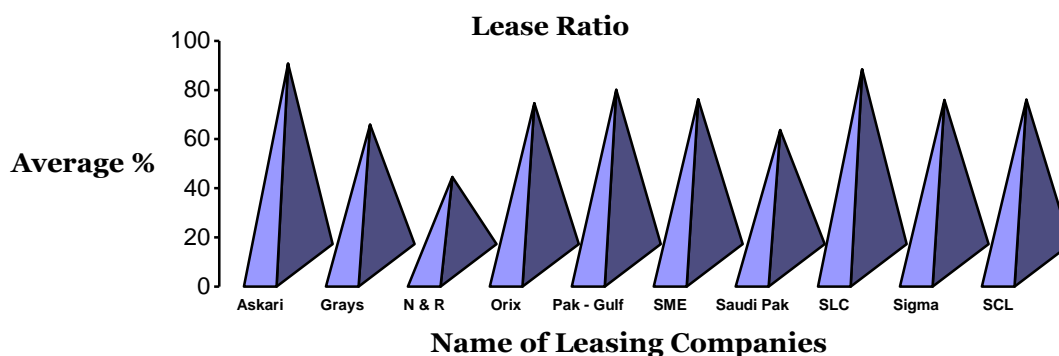
Figure 05

Table 05 & figure 05 are containing the data regarding lease revenues of leasing companies which were working in Pakistan during the period of 2006-2009. This ratio shows the contribution of profit from finance and operating lease in total income. Askari has the highest lease ratio and at first in ranking from others whereas N & R has the lowest lease ratio and at last in ranking.

Table 6 : Ranks of Leasing Companies based on Financial Ratios

Financial Ratios	Leasing Companies									
	Askari	Grays	N & R	Orix	Pak-Gulf	SME	Saudi Pak	SLC	Sigma	SCL
Return on Assets (ROA)	1	4	10	3	2	6	7	8	5	9
Return on Equity (ROE)	1	6	10	3	2	5	9	8	4	7
Return on Revenues (ROR)	1	7	10	3	2	6	8	5	4	9
Net investment in Finance Lease to Total Assets	1	5	10	7	3	2	8	9	6	4
Lease Ratio (LR)	1	8	10	7	3	4	9	2	6	5

Table 7: Financial Ratios of overall Leasing Companies

Sr. No	Financial Ratios	2006	2007	2008	2009
1	Return on Assets (ROA)	9.43	-7.19	8.46	-24.85
2	Return on Equity (ROE)	1.12	-0.76	0.94	-2.55
3	Return on Revenues (ROR)	11.13	-7.25	7.80	-22.25
4	Net Investment in Finance Lease to Total Assets	76.64	84.70	74.97	84.58
5	Lease Ratio	41.73	42.09	46.64	39.37

Source: Compiled from audited financial statements of leasing companies and Financial Statement Analysis of the Financial Sector by SBP, 2006-2009

Table 7 contains the data regarding financial ratios of overall leasing companies for the period of 2006-2009. According to the table ROA was highest positive in 2006 whereas it is highest negative in 2009, ROE was highest positive in 2006 whereas it is highest negative in 2009, ROR was highest positive in 2006 whereas it is highest negative in 2009, net investment in finance lease to total assets ratio was highest in 2007 whereas it is lowest in 2008, and lease ratio was highest in 2008 and lowest in 2009.

4. Conclusions

On the basis of return on assets (ROA), return on equity (ROE), and return on revenues (ROR) the financial performance of leasing companies was good in 2006 & 2008 but the condition is totally adverse in 2007 & 2009 but the major downfall is in 2009. The study of Ahmad, Raza, Amjad, & Akram, (April 2011) also showed the same results that the performance of leasing companies was deteriorated and ratios were negative in 2009. Lease ratio was increasing from 2006-2008 but there is also a decrease in ratio in 2009 and net investment in finance lease to total assets has no constant trend of increase or decrease. According to the return on assets (ROA), return on equity (ROE), and return on revenues (ROR) Askari has the first position in ranking, Pak- gulf has second and Orix has third position. On the basis of net investment in finance lease to total assets and lease ratio Askari is at the top in ranking and Pak- gulf has third position whereas according to the net investment in finance lease to total assets SME has second position and on the basis of lease ratio SLC has second position in ranking. Finally, this effort highlighted important information useful for managers about the activities that may increase the financial performance of leasing institutions in Pakistan. On the other hand, it is also pertinent to mention that the objective of this study is purely for academic purposes and authors' intention is not to make any ranking of leasing companies in Pakistan and nor to give any guidelines for investment purposes. Therefore, it is recommended that for financial decision making, financial analysis of all the leasing companies with data over a reasonable period of time must be considered.

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Appendix

Sr. No	Name of Leasing Companies	Abbreviations
1	Askari Leasing Limited	Askari
2	Grays leasing Limited	Grays
3	Natover Lease and Refine Limited	N & R
4	Orix Leasing Pakistan Limited	Orix
5	Pak – Gulf Leasing Company Limited	Pak – Gulf
6	SME Leasing Limited	SME
7	Saudi Pak Leasing Limited	Saudi Pak
8	Security Leasing Corporation Limited	SLC
9	Sigma leasing Corporation Limited	Sigma
10	Standard Chartered Leasing.	SCL