



The Pakistan Credit Rating Agency Limited

Rating Report

ORIX Leasing Pakistan Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Aug-2018	AA+	A1+	Stable	Maintain	-
12-Feb-2018	AA+	A1+	Stable	Maintain	-
23-Jun-2017	AA+	A1+	Stable	Maintain	-
30-Dec-2016	AA+	A1+	Stable	Maintain	-
14-Jan-2016	AA+	A1+	Rating Watch	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect OLP's augmented market position in the industry. The Company's operations are supported by quality risk management framework and strong internal controls. The management, while exploring various options to garner future growth, continues to emphasize on improved spreads, increased geographical outreach and diversification into different businesses by utilizing the capital available to the Company. OLP's total asset base increased by 6% since Jun17 and the net interest income has improved with reduction in interest expense. The reported profitability of PKR 1,124mln in 3QFY18 is the highest profit in the company's history on the back of sale of shares in Oman ORIX Leasing SAOG. The Company maintains a fairly healthy funding structure, main source of funding remains bank borrowing and CoDs. OLP's capital structure benefited by the issuance of right shares during 1QFY18. The paradigm change is emerging as OLP expands its operational horizon with a new license as Investment Finance Company. Association of OLP with ORIX (Japan) is a consideration.

The ratings are dependent on the Company's ability to maintain its market position while generating sound profitability. The ratings also depend upon keeping its financial profile intact. Any significant change in its risk profile may adversely impact the ratings.

Disclosure

Name of Rated Entity	ORIX Leasing Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale Jun18(Jun-18)
Related Research	Sector Study Modaraba & NBFCs(Apr-18)
Rating Analysts	Muhammad Obaid muhammad.obaid@pacra.com +92-42-35869504

ORIX LEASING PAKISTAN (OLP) PROFILE

Incorporated	1986
Major Business	Leasing Company
Legal Status	Listed
Head Office	Karachi
Overseas Investment	ORIX Leasing Egypt SAE Saudi ORIX Leasing Company Al Hail ORIX Finance Company

OWNERSHIP

- OLP's major shareholder is ORIX Corporation, (ORIX), having 49.6% shareholding.
- Arif Habib Limited has taken ~8% shareholding in the Company.
- Other shareholders are State Life Insurance Corporation and Aberdeen Asian Smaller Companies Investment Trust, PLC.
- OLP holds 100% stake in ORIX Services Pakistan (Private) Limited and 20% stake in ORIX Modaraba which effectively gives OLP management control of the Modaraba.

GOVERNANCE

- The Board of Directors (BoD) comprises of nine members, including the Chief Executive Officer (CEO). It constitutes four nominees of ORIX and four independent directors and the CEO. Apart from the CEO all of them are non-executive directors.
- Mr. Khalid Aziz Mirza, ex-Chairman SECP, is the Chairman of the Board.
- Two Board committees are reporting directly to the Board; namely Audit Committee and Human Resource, Nomination and Remuneration Committee. Internal Audit & Compliance Functions report to the Audit Committee.

MANAGEMENT

- OLP has a well-defined organizational structure.
- Mr. Shaheen Amin is the CEO and has been associated with the ORIX group since 1986. He is a seasoned professional and has held various key positions in the Group.
- Mr. Arshad Abbas is the Deputy CEO since May-17.
- With clear job responsibilities, a diverse mix of highly experienced professionals are heading key functions in OLP.
- Four management committees and a professional management team ensure operational efficacy.

SYSTEMS & CONTROLS

- In-depth credit evaluation and effective monitoring of the risk management processes.
- All critical policies are well-defined and approved by the Board. Procedures have been clearly defined to ensure effective implementation of the policies.
- Comprehensive MIS reports are generated through the lease management system containing key business indicators including volumes, borrowing rates, margins, overdue and financial statements.
- OLP has in-house I.T. application software that caters to the needs of all areas of the business.

PERFORMANCE

- The Company booked net interest revenue (NIR) of PKR 1,332mln in the nine months period ended Mar-18 (FY17: PKR 1,446mln).
- Pre provision profit stood at PKR 1,393mln as on end-Mar18. There is a significant jump in the pre provision profit on account of two factors. Firstly, there is a period on period rise in NIR, partly based on savings in the interest expense. Secondly, OLP was able to book other income of PKR 857mln in the ongoing period. This income had a significant contribution emanating from a one-off event where OLP sold its investment shares of Oman ORIX Leasing SAOG (OOL) for a gain of PKR 677mln (including realized exchange gain of ~PKR 348mln).
- There is a slight reversal of provisions (PKR 34mln) and share of profit from associates (PKR 71mln) which added to the profitability.
- Consequently, OLP was able to record net income at PKR 1,125mln for 9MFY18.
- Going forward, profitability is expected to remain strong.

FINANCIAL RISK

- OLP's main source of funding remains bank borrowing and CoDs. OLP maintains a fairly healthy funding structure leveraging stands at ~71% end-Mar18 (FY17: 69%).
- The share of CoDs witnessed a decline of 38% in FY17 (increase of FY16: 40%).
- Top 20 concentration in CoDs remained adequate (1QFY18: 27%; FY17: 26%).
- OLP's capital structure benefited by the issuance of right shares. In 1QFY18, OLP issued 57.1mln right shares at premium of 250%. This benefited OLP's capital adequacy (Equity to Total Assets 1QFY18: 18.9%; FY17: 12.9%; FY16: 11.8%).
- Total Debt/ Equity stands at (3QFY18: 2.6x; FY17: 4.3x; FY16: 5.0x).



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ORIX Leasing Pakistan Limited

BALANCE SHEET	PKR mln			
	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9MFY18	FY17	FY16	FY15
Assets				
Loans & Finances	4,320	3,660.8	3,279.9	2,580.8
Net Investment in Finance Lease	26,396	25,223.9	25,324.5	20,102.6
Operating Lease Assets	661	975.8	1,166.1	1,369.7
TFCs	-	-	(0.0)	11.0
Investments	2,228	3,562.7	4,254.6	3,285.7
Other Assets	3,073	1,153.4	1,308.2	967.9
Non-Performing Finances	1,268	1,302.6	1,325.6	1,108.5
Less: Accumulated provision (specific/prudential)	(1,268)	(1,302.6)	(1,325.6)	(1,108.5)
Total Assets	36,677	34,577	35,333	28,318
Liabilities				
Certificates of Investment	5,362	6,027.9	9,764.0	6,983.3
Security Deposits	-	-	-	-
Borrowings	13,061	13,343.0	11,016.0	9,297.1
Other Liabilities	11,279	10,739.2	10,376.7	8,488.2
Equity				
Total Equity	6,975	4,466.4	4,176.7	3,549.0
TOTAL LIABILITIES & EQUITY	36,677	34,577	35,333	28,318
INCOME STATEMENT				
Net Interest Revenue	1,332	1,446.0	1,304.0	1,273.5
Other Income	857	367.5	470.5	310.7
Operating Expenses	(796)	(966.3)	(856.5)	(831.9)
Pre-Provision Operating Profit	1,393	847.2	917.9	752.3
(Provision)/Reversals	34	81.7	(175.4)	(167.6)
Share of Profit of Associates	71	229.1	234.2	275.1
Taxes	(373)	(316.8)	(216.7)	(189.0)
(Loss) / Profit after taxation from discontinued operations	-	(0.2)	(13.0)	(0.1)
Net Income	1,125	841	747	671
Ratio Analysis				
Cost-to-Total Net Revenue	36.4%	53.2%	54.9%	53.2%
Borrowings/ (Borrowings + Deposits)	70.9%	68.9%	53.0%	57.1%
Total Debt / Equity (times)	2.6	4.3	5.0	4.6
Equity / Total Assets	19.0%	12.9%	11.8%	12.5%
Impaired Lending / Gross Finances	3.9%	4.2%	4.3%	4.4%
Loan Loss Provisions / Impaired Lending	100.0%	100.0%	100.0%	100.0%

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

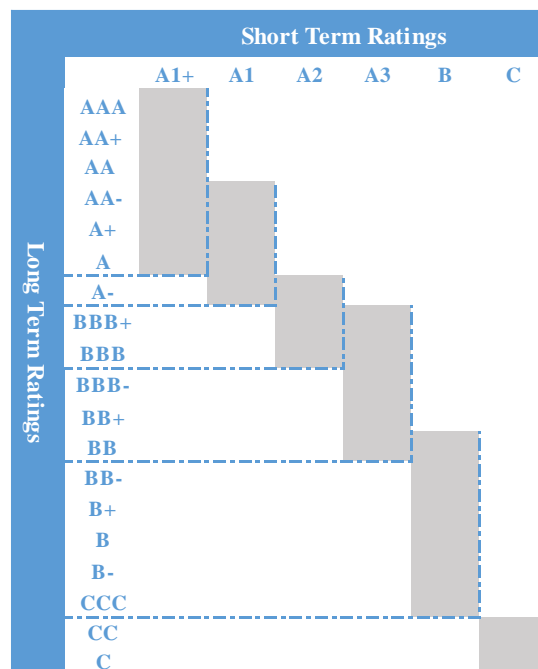
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Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.		
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.