



The Pakistan Credit Rating Agency Limited

Rating Report

OLP Modaraba (Formerly ORIX Modaraba)

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Mar-2023	AA	A1+	Stable	Maintain	-
03-Mar-2022	AA	A1+	Stable	Maintain	-
04-Mar-2021	AA	A1+	Stable	Maintain	-
04-Mar-2020	AA	A1+	Stable	Maintain	-
28-Aug-2019	AA	A1+	Stable	Maintain	-
26-Feb-2019	AA	A1+	Stable	Maintain	-
05-Nov-2018	AA	A1+	Stable	Maintain	-
19-Apr-2018	AA	A1+	Stable	Maintain	-
02-Aug-2017	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings of the Modaraba take fundamental support from its association with OLP Financial Services. The Modaraba's prompt decision-making framework, together with its efficient management systems, is reflected in the entity's ratings. PACRA believes there is a high strategic linkage between OLP Modaraba and its Parent Company, and Modaraba's operation with OLP Financial Services entails synergistic inputs for the entity. A trend of positive financial strategies, causing healthy fund balances and adequate liquidity levels contributed to the maintenance of the ratings. The aforementioned factors also led to the perpetuation of a stable outlook for the Modaraba. In addition, OLP Modaraba profits from its diverse product portfolio, as it can target a significant portion of the customer market. However, the current operating environment poses high business risk as the sales & production of OEMs depicted a significant decrease during the 7MFY23 coupled with a drastic spike in interest rates. This would negatively impact the business performance of modaraba industry going forward. The Company is committed to expanding its portfolio with extreme caution and adopting prudent portfolio management by maintaining its respective risk.

The ratings are dependent on the OLP Modaraba's ability to develop and sustain its business profile while ensuring stable profitability and financial metrics. Deterioration in respective business size and consequent margins, leading to erosion of profitability, and/or coverages will have a negative impact on the ratings.

Disclosure

Name of Rated Entity	OLP Modaraba (Formerly ORIX Modaraba)
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Non-Banking Finance Companies Rating(Jun-22)
Related Research	Sector Study Modaraba & NBFCs(Apr-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504



Profile

Structure OLP Modaraba ("the Modaraba") is an Islamic Financial Institution listed on the Pakistan Stock Exchange.

Background OLP Modaraba, incorporated in 1987, was formed under the Modaraba Companies and Modaraba Ordinance, 1980 and the Rules framed thereunder and is managed by OLP Services Pakistan (Private) Limited. The Management Company is a wholly owned subsidiary of OLP Financial Services Pakistan Limited (formerly Orix Leasing Pakistan Limited), a subsidiary of ORIX Corporation, Japan. It has set up specialized leasing companies in over 38 countries in the world.

Operations The Modaraba is primarily engaged in the financing of plant and machinery, motor vehicles (both commercial and private), computer equipment and housing under the modes of Ijarah (Islamic leasing) and Diminishing Musharika. The registered office is situated on 6th Floor, Syedna Tahir Saifuddin Trust Building, Beaumont Road, Civil Lines, Karachi. It also has two branch offices, located in Lahore and Islamabad.

Ownership

Ownership Structure OLP Financial Services possesses a 20% stake in the Modaraba, out of which 10% is via direct ownership while the remaining is through its subsidiary, OLP Services Pakistan (Private) Limited, making the effective shareholding 20%. The rest of the 80% stake is held by individuals and financial institutions.

Stability OLP Modaraba performs a succession planning session every three years and identifies successors for all critical roles, providing continuity to leadership. Selected Successors are equipped with all necessary training and assignments to enable them to take over the role.

Business Acumen ORIX Corp. was set up in Japan in 1964 as a leasing company. The scope of ORIX Corp's business today has widened considerably from the starting point of leasing, to include lending, investment, life insurance, banking, asset management, automobile, real estate, and environment and energy-related business.

Financial Strength OLP group is majorly owned by ORIX Corporation (49.6%). ORIX Corp., listed on the Tokyo and New York Stock Exchanges. The group has experience of 59 years of operations and has a total asset base of (¥ 14,786bn Sep-22) and equity of (¥ 3,451bn Sep-22).

Governance

Board Structure BoD comprises seven members, including the CEO, out of which two are independent directors. Further, the Board has four Non-Executive Directors and one Executive Director. Three committees exist on the board level; (i) Audit Committee, (ii) HR & Remuneration Committee and (iii) Risk Committee.

Members' Profile The Chairman of the board Mr. Shaheen has been associated with OLP Financial Services Pakistan since 1986. He is accompanied by other board members who are thorough professionals and carry experience in managing business affairs in different sectors.

Board Effectiveness A clear division of responsibilities is essential to the effective functioning of an entity. OLP Modaraba's constituted three board committees to ensure rigorous monitoring of management's policies and the entity's operations. Attendance during the board and its sub-committee meetings were good and minutes of the meetings have been extensively documented.

Financial Transparency The financial statements of OLP Modaraba for FY22 have been audited without any qualification by M/s. A. F. Ferguson & Co., Chartered Accountants. Furthermore, the Board has set up an effective internal audit function that reports independently to the Audit Committee regularly.

Management

Organizational Structure OLP Modaraba has a well-defined organizational structure. Authorities and responsibilities are clearly and completely defined and it is ensured that the policies and procedures are understood throughout the organization. There are five committees at the management level, i) Management Committee (MANCOM), ii) Asset and Liability Committee (ALCO), iii) Country's Operational Risk Committee (CORC), iv) IT Steering Committee (ITSC) and Principal's Committee. All the management committees are chaired by the CEO and include senior staff members.

Management Team The CEO, Mr. Raheel Qamar Ahmad, possesses over 30 years of varied corporate and investment banking experience. He has served as Chairman of the NBFIs and Modaraba Association of Pakistan and the Vice president of the Asian Financial Services Association.

Effectiveness The Management Committee comprises Seven (07) senior members and the managing director, who meet and discuss major business plans, issues and progress updates of their respective functions. The major matters are then put forth in the Board for consideration and approval.

MIS The Company has implemented a number of policies and procedures, such as IT Security Policy and Business Continuity & and Disaster Recovery Plan, in order to mitigate the risks associated with the increasing use of information technology

Risk Management Framework OLP Modaraba manages and monitors risk exposure very prudently. Extensive Credit & Due Diligence (decision-making related) reviews are carried out, both at the time of booking a new client and at every annual review of all relationships.

Business Risk

Industry Dynamics The business environment in the country remained challenging, and measures taken by the Government toward economic stabilization have impacted overall business sentiments. Due to adverse economic indicators in recent periods, the scenario has turned into a gloomy outlook. The transportation sector has also been under strain and disbursements in the vehicle business were conservatively reduced, however gradual revival of the sector seems imminent. The cost of business has risen and NBFCs continue to face stiff competition from banks.

Relative Position OLP Modaraba has established itself as one of the leading players in the Modaraba industry. Modaraba has a total assets base of PKR ~6,821m (end-Jun22 : PKR 6,707m) as at end-Sep 22.

Revenues During FY22, Company's topline witnessed negative growth 9.9% and reported at PKR 1,531m (FY21: PKR 1,701m). Income from Ijarah rentals depicted decrease of 18.9% on YoY basis (FY22: PKR 1,059m, FY21: 1,305m). However, Income from diminishing musharakah observed growth of 22.3% on a YoY basis and reported at FY22: PKR 436m (FY21: PKR 356m). During 3MFY23, total income of the Company observed growth of 17.1% and reported at PKR 430m (3MFY22: PKR 367.6m). The Management has plans to focus on expanding its Musharaka Book, while reducing its exposure in Ijarah.

Performance Due to significant spike in discount rates resulted in higher finance costs of PKR 420m (FY21: 347m) in FY22. The same is also reflected in 3MFY23 which reported a significant increase of over 132.1% YoY to PKR 188m (3MFY22: 81m). Despite higher inflationary pressure, the Company was largely able to maintain its admin expenses, reported at PKR 193m (FY21: PKR 188m) in FY22. With the support of net reversal of impairment under ijarah agreements PKR 4.3m (FY21: PKR 1.2m), the Company was able to achieve a PBT of PKR 152.8m (FY21: PKR 152.5m). However, PAT reduces by 26% and stands at PKR 111.5m (FY21: PKR 152.5m), the decrease is due to a recent regulatory change, the Company has paid tax expenses of PKR 41.3m in the recent period.

Sustainability OLP Modaraba intends to continue with its cautious approach, while targeting quality customers, going forward. The management is in the process of generating new avenues of business, for which a comprehensive business plan is under development, to enhance the standalone profitability of the Modaraba prospectively.

Financial Risk

Credit Risk During FY22, Modaraba made recovery and was able to significantly reduce non-performing leases/ finances (FY22: PKR 298m; FY21: PKR 207m). This is due to credit risk minimization measures coupled with good quality customers. Accordingly, a provision was recorded, creating coverage of 59.5% of the total nonperforming receivables. In light of the current standing of non-performing receivables, the coverage ratio stood at 60.2% for the period end-Sep 22. Moreover, the Company's top 20 finances portfolio constitutes 35.5% of the total advances portfolio. Comfort can be drawn from well-reputed and established clientele.

Market Risk The Modaraba focuses primarily on the core financing business and has adopted appropriate policies to minimize its exposure to market risk. Moreover, ALCO and group treasury use different parameters to monitor the market risk performance of OLP Modaraba's funding base.

Liquidity And Funding Given economic challenges coupled with high policy rates, the cost of borrowings depicted an increasing trend over the year. Total borrowing of the Company stood at PKR 5,155m at end-Sep22. Company's bank borrowings are well diversified through different banking channels. The liquidity position of the Modaraba is as; Liquid Assets/Total Funding ratio (3MFY23: 16.8%, FY22: 10.1%, FY21: 14.7%).

Capitalization As at end-Sep-22, reported equity of Modaraba stood at PKR 1,072m with a Total Debt (Excluding lease security deposits)/Equity ratio of 4.4 times. During the period under review, Modaraba has a CAR of 15.7% (FY22: 17.0%), portraying Company's strong position, should adverse circumstances arise.



OLP Modaraba
Listed Public Limited

PKR mln

Sep-22	Jun-22	Jun-21	Jun-20
3M	12M	12M	12M

A BALANCE SHEET

1 Total Finance-net	5,112	5,276	5,364	5,856
2 Investments	-	-	-	-
3 Other Earning Assets	855	507	516	932
4 Non-Earning Assets	572	626	664	452
5 Non-Performing Finances-net	281	298	207	8
Total Assets	6,821	6,707	6,750	7,246
6 Funding	5,155	5,078	5,234	5,712
7 Other Liabilities	593	491	358	360
Total Liabilities	5,748	5,569	5,592	6,072
Equity	1,072	1,139	1,159	1,174

B INCOME STATEMENT

1 Mark Up Earned	430	1,531	1,682	2,015
2 Mark Up Expensed	(189)	(420)	(329)	(599)
3 Non Mark Up Income	11	49	72	65
Total Income	253	1,160	1,426	1,481
4 Non-Mark Up Expenses	(225)	(987)	(1,212)	(1,324)
5 Provisions/Write offs/Reversals	6	(20)	(61)	(29)
Pre-Tax Profit	35	153	153	127
6 Taxes	(10)	(41)	-	-
Profit After Tax	25	112	153	127

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	88.6%	85.1%	85.0%	89.4%
b ROE	8.9%	9.7%	13.1%	15.7%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	104.6%	109.8%	106.4%	102.6%
b Accumulated Provisions / Non-Performing Advances	0.0%	0.0%	0.0%	0.0%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	16.8%	10.1%	14.7%	18.2%
b Borrowings from Banks and Other Financial Institutions / Funding	0.0%	0.0%	0.0%	0.0%

4 MARKET RISK

a Investments / Equity	0.0%	0.0%	0.0%	0.0%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	15.7%	17.0%	17.2%	16.2%
---------------------------------	-------	-------	-------	-------

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(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 | Clause 11-(A)(p).

(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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent