



The Pakistan Credit Rating Agency Limited

Rating Report

OLP Modaraba (Formerly ORIX Modaraba)

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Mar-2024	AA	A1+	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The ratings of OLP Modaraba ("the Modaraba") derive strength from its association with OLP Financial Services Pakistan Limited, along with a strong foothold in the industry. The Modaraba's profile is distinguished by its adoption of a prudent risk management strategy, contributing to heightened operational efficiency and a robust client base. The Modaraba emanates strength from its diverse product portfolio in the Islamic financing sector complemented by an extensive geographical presence. Despite economic challenges, the Modaraba managed a strong performance. Major portion of the revenue is generated from the Ijarah Rental (~51%), followed by Diminishing Musharika agreements (~44%). For prudent management of risk, arising in the economy, coupled with high policy rates, the Modaraba made a strategic shift towards diminishing musharaka. Thus, business risk remains afloat. Moreover, confidence is driven by a sound business profile, emanating from sustained profitability. Going forward, transpiring the devised strategy to support the business volumes, hence profitability, in a successful manner remains imperative for the ratings. On the financial risk front, the Modaraba's commendable performance, marked by robust capital adequacy and notable reduction in non-performing loans, reflects sustained growth and value creation for certificate holders through profitable operations and consistent dividend distribution. However, asset quality needs to be strengthened so as to grapple with the challenges in sustaining the Modaraba's liquidity profile - liquidity ratio (FY23: ~8%, FY22: ~10%). Further, the recent investment initiative in mutual funds is expected to support the financial risk aspect. The Modaraba's management is committed to expanding its portfolio with extreme caution and adopting prudent portfolio management to maintain an adequate level of risk. Moreover, strong governance mechanism supports the overall policy framework.

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 consequently 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(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Non-Banking Finance Companies Rating(Jun-23)
Related Research	Sector Study Modaraba & NBFCs(Apr-23)
Rating Analysts	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504

Profile

Structure OLP Modaraba ("the Modaraba") was incorporated in 1987 as an Islamic Financial Institution, listed on the Pakistan Stock Exchange.

Background The Modaraba was initially titled First Grindlays Modaraba and was controlled by ANZ Grindlays Bank. In 2000, Standard Chartered Bank acquired it and renamed as Standard Chartered Modaraba. The Modaraba underwent several changes and in 2016, ORIX Leasing Pakistan acquired and renamed it as ORIX Modaraba. Recently, as part of the rebranding of ORIX Group, the Modaraba was titled as OLP Modaraba.

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 holds ~20% stake in the Modaraba, out of which ~10% is directly held, while the remaining ~10% is held through its subsidiary, i.e. OLP Services Pakistan (Pvt.) Ltd. The remaining stake i.e. ~80% is held by financial institutions and general public.

Stability The Modaraba's ownership structure is marked by diversity, encompassing a broad spectrum of individuals and corporate entities as integral components of its shareholding composition.

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 Corp (~49.6%). ORIX Corp. is listed on the Tokyo and New York Stock Exchanges. The Group has experience of six decades of operations and has a total asset base of (¥ 15,769bln Dec-23) and equity of (¥ 3,805bln Dec-23).

Governance

Board Structure The Modaraba has a seven-member Board comprising one Executive, four Non-Executive Directors and two Independent Directors. The Board also comprises two Female Directors.

Members' Profile The Chairman of the Board Mr. Shaheen Amin brings over 4 decades of experience and has been associated with the Group since 1986. He is supported by a team of seasoned professionals on the Board.

Board Effectiveness A clear division of responsibilities is essential to the effective functioning of an entity. OLP Modaraba constituted three Board committees; (i) Audit Committee, (ii) HR & Remuneration Committee, and (iii) Risk Committee to ensure rigorous monitoring of management's policies and the entity's operations. The Audit Committee meets quarterly, while the HR and Risk Committees meet annually. Attendance at all Board and sub-committee meetings remains adequate, and detailed minutes have been diligently documented.

Financial Transparency The External Auditors of the Company, M/S. A.F. Fergusons & Co., issued an unqualified audit opinion pertaining to annual financial statements for FY23.

Management

Organizational Structure The Modaraba has a well-established organizational structure to inform, direct, manage and monitor the activities of the Company toward the achievement of its objectives.

Management Team The CEO, Mr. Raheel Qamar Ahmad, possesses over 3 decades of 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. He is assisted by a team of experienced professionals.

Effectiveness 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. The Management Committee comprises seven (7) 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 & 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 has remained challenging. 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 cost of business has risen and NBFCs continue to face stiff competition from banks.

Relative Position In terms of equity base, the Modaraba holds a prominent position in the industry (FY23: ~PKR 1.2bln, FY22: ~PKR 1.1bln)

Revenues The Modaraba's topline primarily comprises Ijarah Rentals (~51%) and Diminishing Musharika (~44%). The topline grew by ~24%, reported at PKR 1,897mln during FY23 (FY22: PKR 1,531mln). From Diminishing Musharika, the topline witnessed a substantial increase of ~91%, while profit from banks improved by ~72%. However, income from Ijarah rentals declined by ~8%, reported at PKR 976mln during FY23. The improvement in the topline was preliminarily attributed to the increase in the discount rate as the whole portfolio of Modaraba is on a floating rate basis.

Performance During FY23, a significant spike in discount rates resulted in higher finance costs of PKR 826mln (FY22: 420mln) in FY23. Owing to higher inflationary pressure, admin & gen. expenses also increased to PKR 243mln (FY22: PKR 193mln) in FY23. The Company was able to achieve a PAT of PKR 128mln (FY22: PKR 111mln). During 3MFY24, with the efficient allocation of resources, the PAT of Modaraba reported a growth of ~60% YoY to PKR 40mln (3MFY23: PKR 25mln).

Sustainability The 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 As of 3MFY24, Modaraba's non-performing loans (NPLs) totaled PKR 158mln (FY23: PKR 136mln), attributed to economic challenges, notably high inflation. The coverage ratio was ~66% as of 3MFY24 (FY23: ~82%). The debt-to-equity ratio remained steady at 3.9x as of FY23 (FY22: 4.0x), indicating that Modaraba's liabilities continue to surpass its equity. Additionally, the ratio of gross finances to deposits and borrowings increased to ~116.9% in FY23 from ~109.8% in FY22. This suggests that the overall finances are growing at a faster rate compared to the available borrowings and deposits.

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 the 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 funding of the Modaraba stood at PKR 5,044mln as of FY23. The Modaraba's bank borrowings are well diversified through different banking channels. The liquidity position of the Modaraba witnessed a dip; Liquid Assets/Total Funding ratio stood at ~7.9% in FY23 (FY22: ~10.1%). As of 3MFY24, Liquid Assets / Funding ratio stood at ~7%.

Capitalization As of FY23, the reported equity of the Modaraba stood at PKR 1,177mln with a Total Debt (Excluding lease security deposits)/Equity ratio of 3.9x. CAR of Modaraba stood at 17.2% (FY22: 17%), portraying the Modaraba's strong position, should adverse circumstances arise.



OLP Modaraba
Public Listed

PKR mln

Sep-23	Jun-23	Jun-22	Jun-21
3M	12M	12M	12M

A BALANCE SHEET

1 Total Finance-net	5,544	5,761	5,276	5,364
2 Investments	132	124	-	-
3 Other Earning Assets	342	384	507	516
4 Non-Earning Assets	566	419	626	664
5 Non-Performing Finances-net	159	137	298	207
Total Assets	6,742	6,825	6,707	6,750
6 Funding	4,899	5,044	5,078	5,234
7 Other Liabilities	717	604	491	358
Total Liabilities	5,616	5,648	5,569	5,592
Equity	1,126	1,177	1,139	1,159

B INCOME STATEMENT

1 Mark Up Earned	527	1,897	1,531	1,682
2 Mark Up Expensed	(258)	(826)	(420)	(329)
3 Non Mark Up Income	1	52	49	72
Total Income	271	1,124	1,160	1,426
4 Non-Mark Up Expenses	(218)	(934)	(1,005)	(1,212)
5 Provisions/Write offs/Reversals	5	(4)	(2)	(61)
Pre-Tax Profit	57	186	153	153
6 Taxes	(17)	(58)	(41)	-
Profit After Tax	40	129	112	153

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	80.7%	83.1%	86.7%	85.0%
b ROE	14.0%	11.1%	9.7%	13.1%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	116.4%	116.9%	109.8%	106.4%
b Accumulated Provisions / Non-Performing Advances	0.0%	0.0%	0.0%	0.0%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	7.0%	7.9%	10.1%	14.7%
b Borrowings from Banks and Other Financial Institutes / Funding	0.0%	0.0%	0.0%	0.0%

4 MARKET RISK

a Investments / Equity	11.7%	10.5%	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)	16.7%	17.2%	17.0%	17.2%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	-17.2%	3.3%	-1.7%	3.3%

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+	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	
BBB-	
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	
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	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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

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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)
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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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