The Pakistan Credit Rating Agency Limited

Rating Report

OLP Financial Services Pakistan Limited (Formerly ORIX Leasing Pakistan Limited)

Report Contents

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	-
03-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	-
16-Aug-2018	AA+	A1+	Stable	Maintain	-
12-Feb-2018	AA+	A1+	Stable	Maintain	-
23-Jun-2017	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect OLP’s leading market position in the industry. The Company maintained its position backed by its wealth of experience in the industry. The Company utilizes its expertise to gauge the prevailing conditions and take decisions in the evolving environment. The ratings also reflect OLP’s association with ORIX Corporation (ORIX), its parent company. The company derives synergies with the Group in strengthening its governance structure, internal policy framework and prudent risk management approach. The presence of three independent directors, including chairman of the Board, two executive directors and four non-executive directors having vast experience of local as well as global financial market, provides comfort on the risk profile of the Company and also lends support to rating. In current environment, when the economy is facing severe challenges, coupled with political uncertainties, the Company has shown sustained results. Significant decrease in sales and production of OEMs during 7MFY23 and increasing policy rates cause high business risk for the Company. However, OLP successfully maintains its business risk in the reported period due to its focus on cautious approach in writing new business, customer diversification, maintaining quality portfolio and expanding market reach through launch of new products as per the market need. Going forward, the increasing trend in the policy rate, inflationary pressure on price of assets and contracting economy may pose challenge to the Company’s profitability. Nevertheless, the Company is committed to expanding its portfolio with due caution, adopting prudent portfolio management by maintaining its respective risk and profitability. The Company maintains a fairly healthy funding structure; main source of funding remains bank borrowing besides CoDs and privately placed term finance certificates. Diversified source of funding strengthens the funding structure of OLP. The Company maintains a strong CAR of 27.6% as at end-sep22 comfortably fulfilling the minimum requirement of 10%.

The Company’s rating depends upon keeping its financial and sponsor profile intact. Any significant change in its risk profile may adversely impact the ratings.

Disclosure

Name of Rated Entity	OLP Financial Services Pakistan Limited (Formerly ORIX Leasing Pakistan Limited)
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 Financial Services Pakistan Limited, (‘‘the Company’’ or ‘‘OLP”) is a public limited company.

Background OLP was established in 1986 as a joint venture between ORIX Corporation, Japan and local investors. The blend of international experience and local expertise garnered over the last 36 years provides OLP with a unique competitive edge. The Company has Investment Finance Services license under Non-Banking Finance Companies Rules, issued by Securities Commission of Pakistan.

Operations OLP offers value-added financial products and innovative customized services to a wide array of customers throughout Pakistan. It has a network of 36 branches situated in 34 cities. The Company follows ORIX Corp’s strategy of diversification to achieve business excellence through a nationwide customer base, primarily comprising corporate and individual customers with emphasis on serving the needs of SMEs.

Ownership

Ownership Structure The shareholding of the Company is composed with ORIX Corp. being the key shareholder at 49.58%, with further prominent shareholding held by Arif Habib Group (6.78%) and State Life Insurance Corporation (5.25%).

Stability The sound shareholding structure provides stability to the ownership profile of the Company. Succession planning is an important exercise performed every year to identify successors for all critical roles, which provides continuity to leadership and smooth operations.

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 ORIX Corp., listed on the Tokyo and New York Stock Exchanges, is one of Japan’s leading integrated financial services groups with operations spanning over 28 countries and regions around the globe. The group has experience of 59 years of operations and has a total asset base of (¥ 14,786bln Sep-22) and equity of (¥ 3,345bln Sep-22).

Governance

Board Structure The Company has a nine-member board comprising two executives, four non-executive directors and three independent directors. The Board also comprises of two female directors.

Members’ Profile Mr. Khalid Aziz Mirza, Chairman of the board, has over 5 decades of experience. He served as IFC’s Chief of Mission in Turkey and Chief of Regional Mission in Thailand. He has also served as Chairman of SECP and Monopoly Control Authority.

Board Effectiveness The board is comprised of a mix of executive, non-executive and independent directors. In line with the guidelines of code of corporate governance applicable to listed companies. Overall board oversight is considered effective with quarterly board meetings while minutes of the meetings are documented adequately.

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 FY22.

Management

Organizational Structure OLP has a well-established organizational structure to inform, direct, manage and monitor the activities of the Company toward the achievement of its objectives. OLP has four management committees; namely Management Committee, Asset & Liability Management Committee, Management Credit Committee and IT Steering Committee.

Management Team Mr. Shaheen Amin, the CEO of OLP, holds a MBA degree from University of Chicago and MS in Risk management from New York University, and has been associated with OLP since 1986. He is supported by a qualified and experienced management team.

Effectiveness Management committees meet on a regular basis to enhance the governance process throughout the organization.

MIS OLP has in-house IT application software that has periodically been upgraded and extended to all areas of the business. The Company has implemented numerous policies and procedures, such as IT Security Policy and Business Continuity Plan, to ensure smooth and continued operations.

Risk Management Framework Minimum thresholds for approval of credit have been defined by the risk department and all credits falling below the minimum level of threshold are subject to a Post Execution Risk Review, where the risk department performs a thorough review of credit documents.

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 OLP has strong structural advantages over its peers, which supports its growth plans and helps it to maintain leadership position in Modaraba & NBFI industry. OLP has total assets base of PKR ~30.0bln as at end-Sep22 (end-Jun22: PKR 29.7bln).

Revenues Income from operations grew by 19.1% to PKR 3,905mln (FY21: PKR 3,278mln) during FY22. This is mainly owing to an increase in earning portfolio coupled with a high policy rate. A major revenue contributor (57.7%) in total revenue, (i.e., finance leases) remained stagnant at PKR 2,252mln (FY21: PKR 2,218mln) during FY22; due to muted growth in lease portfolio. Mark-up on finances and loans inched up to PKR 1,615mln (FY21: PKR 971mln) in FY22, growing by 66.2% reflecting shift of the Company towards finances. OLP's income from operations grew by 53% to PKR 1,280mln (3MFY23: PKR 836mln) in 3MFY23.

Performance An increase in borrowing portfolio, in line with increasing asset portfolio, and significant spike in discount rates resulted in higher finance costs of PKR 1,794mln (FY21: 1,194mln) in FY22. The same is also reflected in 3MFY23 which reported a significant increase of over 112.8% YoY to PKR 687mln (3MFY22: 323mln). Despite higher inflationary pressure, company was largely able to maintain its admin expenses, reported at PKR 1,285mln (FY21: PKR 1,136mln) in FY22. With the support of net reversal of provision PKR 29mln (FY21: PKR 18mln), the Company was able to achieve a PBT of PKR 1,377mln (FY21: PKR 1,284mln). During 3MFY23, with the efficient allocation of resources, the PBT of OLP reported a growth of 34.7% YoY to PKR 405mln as compared to PKR 300mln same period last year.

Sustainability The key strength of OLP is its robust risk management framework. Management strategy of cautious approach on building up the portfolio would pave way for enhance business growth in future. At the same time, efforts were made to establish the base for launching new products in future when market stabilizes.

Financial Risk

Credit Risk OLP made significant recoveries and was able to reduce non-performing finances during the year (FY22: 1,120mln; FY21: 1,290mln). This is due to credit risk minimization measures coupled with good quality customers. Accordingly, a provision was recorded, creating a coverage of 91.25% of the total non-performing receivables. In light of the current standing of non-performing receivables, the coverage ratio stood at 83.08% for the period end-Sep22. Moreover, the Company's finances/ loan portfolio is well diversified as 6.8% of the total portfolio is concentrated in top-20 groups; considered satisfactory. In addition to that Company’s long track record and understanding of the target customer segment also supports the asset quality metrics.

Market Risk Company is exposed to market risk mainly in the form of movement in interest rates affecting its debt obligations and leases and loans receivables, whereas the Company has a policy not to assume any unhedged foreign currency position. Company has an investment book of PKR 4,672mln as at end-Sep22. A major portion of (~57%) investment book comprises government securities. As at end-Sep22, Company reported an investment/equity coverage of 50.4%.

Liquidity And Funding Given economic challenges coupled with high policy rates, the cost of borrowings depicted an increasing trend over the year. However, the Company has managed to tap other borrowing sources having raised PKR 3,000mln by issuing PPTFC during FY22. The total borrowing of the Company stood at PKR 18,827mln at end-Sep22. Company’s’ bank borrowings are well diversified from different banks with largest exposure of 18% from a single bank in FY22. The liquidity position of the Company is as; Liquid Assets/Total Funding ratio (3MFY23: 21.7%; FY22: 17.3%).

Capitalization As at end-Sep22, reported equity of the company stood at PKR 9,278mln with a D/E ratio of 2.1x. Equity to Total Assets ratio of the Company was 29.9% as at end-Sep22 (end-Jun22: 30.0%).

PKR mln

OLP Financial Services Pakistan Listed Public Limited	Sep-22	Jun-22	Jun-21	Jun-20
	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finance-net	24,604	24,139	20,517	16,883
2 Investments	4,672	2,960	2,283	2,777
3 Other Earning Assets	78	734	65	51
4 Non-Earning Assets	1,517	1,796	1,704	2,182
5 Non-Performing Finances-net	127	101	217	1,105
Total Assets	30,998	29,730	24,786	22,998
6 Funding	18,827	18,020	14,073	12,862
7 Other Liabilities	2,894	2,796	2,187	1,902
Total Liabilities	21,721	20,816	16,260	14,764
Equity	9,277	8,914	8,526	8,234
B INCOME STATEMENT				
1 Mark Up Earned	1,280	3,905	3,278	4,048
2 Mark Up Expensed	(687)	(1,794)	(1,194)	(1,845)
3 Non Mark Up Income	210	584	403	388
Total Income	802	2,696	2,488	2,591
4 Non-Mark Up Expenses	(360)	(1,348)	(1,222)	(1,293)
5 Provisions/Write offs/Reversals	(38)	29	18	(324)
Pre-Tax Profit	405	1,377	1,284	974
6 Taxes	(139)	(495)	(369)	(271)
Profit After Tax	266	882	915	702
C RATIO ANALYSIS				
1 PERFORMANCE				
a Non-Mark Up Expenses / Total Income	44.8%	50.0%	49.1%	49.9%
b ROE	11.7%	10.1%	10.9%	8.6%
2 CREDIT RISK				
a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	131.4%	134.5%	147.3%	139.9%
b Accumulated Provisions / Non-Performing Advances	88.8%	91.1%	83.5%	51.0%
3 FUNDING & LIQUIDITY				
a Liquid Assets / Funding	28.9%	25.2%	23.3%	32.3%
b Borrowings from Banks and Other Financial Institutes / Funding	59.0%	58.2%	65.4%	65.7%
4 MARKET RISK				
a Investments / Equity	50.4%	33.2%	26.8%	33.7%
b (Equity Investments + Related Party) / Equity	21.4%	20.4%	17.9%	18.9%
5 CAPITALIZATION				
a Equity / Total Assets (D+E+F)	29.9%	30.0%	34.4%	35.8%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	11.9%	2.1%	4.3%	-3.2%

Credit Rating

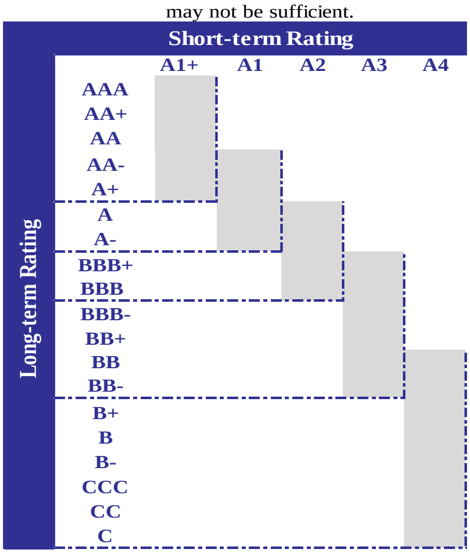
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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)
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