



The Pakistan Credit Rating Agency Limited

Rating Report

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

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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	-
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	-

Rating Rationale and Key Rating Drivers

The ratings reflect OLP Financial Services Pakistan Limited's ("OLP" or the "Company") leading market position in the industry. The Company maintained its position backed by its extensive experience in the industry. The Company utilizes its expertise to gauge the prevailing conditions and make adaptive 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. Amidst severe economic challenges, the Company has demonstrated sustained financial performance. The significant decline in OEM sales and production, coupled with high policy rates during FY23, posed a high business risk for the Company. Given that OLP is heavily involved in vehicle financing (~78%), the challenges remain pronounced. Nevertheless, OLP was able to leverage the policy rates, resulting in reported value-driven growth. Adapting to market dynamics, the Company strategically shifted its focus towards the second-hand car market. The Company must maintain business risk through a cautious approach in writing new business, customer diversification, quality portfolio maintenance, and expanding market reach with strategic product launches. However, the persistently high inflation and contraction of consumer buying power pose ongoing challenges. Nonetheless, the Company remains committed to expanding its portfolio with caution, adopting prudent portfolio management practices to maintain risk and profitability. OLP maintains a healthy funding structure primarily from financial institutions, supplemented by Certificates of Deposit (CoDs) and a Privately Placed Term Finance Certificate (PPTFC). Diversified funding sources strengthen OLP's financial position. Additionally, the Company possesses a significant investment portfolio for liquidity management, supported by a strong capital position, as evidenced by its robust Capital Adequacy Ratio (CAR).

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(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Non-Banking Finance Companies Rating(Jun-23)
Related Research	Sector Study Modaraba & NBFCs(Apr-23)
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Profile

Structure OLP Financial Services Pakistan Limited (“OLP” or “the Company”) was incorporated in 1986 as a public listed company.

Background OLP was established as a joint venture between ORIX Corporation, Japan and local investors. The blend of international experience and local expertise garnered over the last 37 years provides OLP with a unique competitive edge.

Operations OLP provides innovative financial products and services across Pakistan through its network of 37 branches in 35 cities. Following ORIX Corp’s diversification strategy, the company focuses on achieving business excellence with a nationwide customer base, particularly SMEs. Operating under an Investment Finance Services license from the Securities Commission of Pakistan, OLP serves both corporate and individual customers.

Ownership

Ownership Structure The Company’s main shareholding resides with ORIX Corp. (~49.58%), followed by Arif Habib Group (~6.78%), State Life Insurance Corporation (~5.25%) and Ms. Atiqah Begum (~4.54%). The general public holds ~27.03%, with the rest distributed among various entities.

Stability The sound shareholding structure provides stability to the ownership of the Company.

Business Acumen Listed on the Tokyo and New York Stock Exchanges, ORIX Corp. is a leading integrated financial services group in Japan, operating across 28 countries and regions globally. Its business has evolved from leasing to include lending, investment, life insurance, banking, asset management, automobile, real estate, and environment and energy-related activities.

Financial Strength The group has experience of six decades of operations and has a total asset base of (¥ 15,769bln Dec-23) and equity of (¥ 3,727bln Dec-23).

Governance

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

Members’ Profile Mr. Khalid Aziz Mirza, Chairman of the Board, brings over 5 decades of experience and has been associated with the Board since Jun’16. He is supported by a team of seasoned professionals on the Board.

Board Effectiveness 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 FY23.

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.

Management Team Mr. Shaheen Amin, the CEO of OLP, has been associated with the Company since 1986 and has served in various positions during his tenure. He is supported by a qualified and experienced management team.

Effectiveness OLP has four management committees; namely Management Committee, Asset & Liability Management Committee, Management Credit Committee and IT Steering Committee. 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 a leadership position in the Modaraba & NBFi industry.

Revenues Core Income is generated through two operations: finance and loans (~51%) and finance lease (~49%). Overall, income from operations surged by ~53% to PKR 5,903mln in FY23 (FY22: PKR 3,867mln), driven by an expanding earning portfolio and a higher policy rate. Finance and Loans reported growth, reaching PKR 3,022mln (FY22: PKR 1,614mln) during FY23. The mark-up on finance lease increased to PKR 2,880mln (FY22: PKR 2,252mln), showing a ~28% growth in FY23. In 3MFY24, OLP’s income from operations grew by ~36% to PKR 1,724mln (3MFY23: PKR 1,271mln).

Performance An increase in the borrowing portfolio, in line with increasing asset portfolio, and significant spike in discount rates resulted in higher finance costs of PKR 3,157mln (FY22: 1,793mln) in FY23. The same is also reflected in 3MFY24 which reported a significant increase of over ~41% YoY to PKR 969mln (3MFY23: 687mln). Owing higher inflationary pressure, admin & gen. expenses grew, reported at PKR 1,435mln (FY22: PKR 1,285mln) in FY23. The Company was able to achieve a PAT of PKR 1,211mln (FY22: PKR 882mln). During 3MFY24, with the efficient allocation of resources, the PAT of OLP reported a growth of ~42% YoY to PKR 379mln (3MFY23: PKR 266mln).

Sustainability OLP’s key strengths lie in its robust risk management framework, employing a cautious portfolio-building strategy for future business growth, coupled with ongoing efforts to establish a foundation for launching new products when the market stabilizes.

Financial Risk

Credit Risk As of 3MFY24, the Company’s non-performing loans (NPLs) totaled PKR 786mln (FY23: PKR 680mln), attributed to economic challenges, notably high inflation. The coverage ratio was ~110% as of 3MFY24 (FY23: ~129%). The well-diversified finances/loan portfolio, with only ~6.7% concentrated in the top 20 groups, is deemed satisfactory. The Company’s extensive track record and understanding of the target customer segment further support asset quality metrics.

Market Risk The 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. The investment portfolio is divided into Government Securities (~53%) and Related Party investments (~47%), with a minimal allocation to the equity market. As at 3MFY24, the Company reported an Investment/Equity coverage of ~49.0% (FY23: 50.6%).

Liquidity And Funding For funding needs, the Company utilizes Certificates of Investments (COIs) and borrowing from Financial Institutes. In FY22, an additional PKR 3,000mln was raised through a Privately Placed Term Finance Certificate (TFC). As at 3MFY24, total borrowing reported at PKR 17,745mln (FY23: PKR 18,679mln). The Company manages liquidity with a substantial investment portfolio of PKR 4,991mln as at 3MFY24. The strong liquidity position is evident in a Liquid Assets/Total Funding ratio of 16.9% (FY23: 15.0%).

Capitalization As of 3MFY24, the equity base of the Company reported at PKR 10,178mln (FY23 PKR 9,794mln) with a D/E of 1.8x. The Company reported a Capital Adequacy Ratio (CAR) of 28.49% as of 3MFY24.



OLP Financial Services Pakistan Limited
Public Listed Company

PKR mln

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

A BALANCE SHEET

1 Total Finance-net	25,179	25,648	24,347	20,629
2 Investments	4,991	4,952	2,975	2,278
3 Other Earning Assets	68	77	736	65
4 Non-Earning Assets	1,747	1,476	1,570	1,598
5 Non-Performing Finances-net	(81)	(200)	101	217
Total Assets	31,904	31,953	29,730	24,787
6 Funding	17,745	18,679	18,020	14,073
7 Other Liabilities	3,982	3,480	2,795	2,188
Total Liabilities	21,727	22,159	20,815	16,261
Equity	10,178	9,794	8,914	8,526

B INCOME STATEMENT

1 Mark Up Earned	1,818	6,099	3,987	3,316
2 Mark Up Expensed	(969)	(3,158)	(1,794)	(1,194)
3 Non Mark Up Income	166	697	502	365
Total Income	1,015	3,638	2,696	2,488
4 Non-Mark Up Expenses	(397)	(1,472)	(1,348)	(1,222)
5 Provisions/Write offs/Reversals	2	(137)	29	18
Pre-Tax Profit	620	2,029	1,377	1,284
6 Taxes	(241)	(818)	(495)	(369)
Profit After Tax	378	1,211	882	915

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	39.1%	40.5%	50.0%	49.1%
b ROE	15.2%	12.9%	10.1%	10.9%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	146.3%	140.9%	141.4%	156.0%
b Accumulated Provisions / Non-Performing Advances	110.3%	129.4%	91.1%	83.5%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	16.9%	15.0%	11.4%	7.1%
b Borrowings from Banks and Other Financial Institutions / Funding	60.0%	60.8%	58.3%	65.4%

4 MARKET RISK

a Investments / Equity	49.0%	50.6%	33.4%	26.7%
b (Equity Investments + Related Party) / Equity	23.1%	23.7%	20.3%	17.9%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	31.9%	30.7%	30.0%	34.4%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	15.5%	5.7%	2.1%	4.3%

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

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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)
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- (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).
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- (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)

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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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