



The Pakistan Credit Rating Agency Limited

## Rating Report

### ORIX Leasing Pakistan Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
30-Dec-2016	AA+	A1+	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect OLP's leading market position in the industry. The risk management framework and strong internal controls are the mainstay of OLP's operations. The management, while exploring various options to garner future growth, continues to emphasize on improved profitability. The strategy is supplemented by OLP's extended outreach, augmented recently as well. OLP believes in timely re-positioning as is evident from the sale of its overseas strategic investments over the last few years, investment in Islamic arm through acquisition of a modaraba, development of product for transportation segment and addition of value-added services to standard leasing products. OLP has a diverse product slate, with the Leases representing the larger proportion of the earning assets pie. The larger chunk of revenues is derived from this segment as well. OLP has also built a good book of Finances, catering vehicle, microfinance and Islamic finance. OLP balances the risk and profitability and may not expand business for size only. In lieu of this, OLP eyes non-spread based income streams to maximize its return without taking extended risk. OLP's strength of the business model lies in its ability to accurately gauge the pulse of the borrowers and their credit appetite in the context of the fundamentals of their businesses. The Company maintains a fairly healthy funding structure; main source of funding remains bank borrowing and CoDs. OLP's capital structure is strong. The paradigm change is evolving as OLP expands its operational horizon with a new license as Investment Finance Company. Association of OLP with ORIX (Japan) and emphasis on strong governance structure as reflected by nearly 45% independent members on OLP's Board, provide extra strength to OLP's standing.

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

#### Disclosure

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

## The Pakistan Credit Rating Agency Limited

### Profile

**Structure** ORIX Leasing Pakistan Limited, (hereinafter referred to as “company” or “OLP”) commenced commercial operations in 1986 as a private limited company and later converted into a public limited company in 1987.

**Background** OLP was established in 1986 as a joint venture between ORIX Corporation, Japan (ORIX Corp) and local investors. The blend of international experience and local expertise acquired over the last 32 years provides OLP a distinctive competitive edge.

**Operations** OLP offers value-added financial products and innovative customized services to a wide array of customers throughout Pakistan. The company follows a strategy of diversification to achieve business excellence through a nationwide customer base, primarily comprising of SMEs and individuals.

### Ownership

**Ownership Structure** OLP’s major shareholder is ORIX Corporation, having 49.58% shareholding. Other shareholders are, Arif Habib Group (~11.96%), State Life Insurance Corporation (~5.25%), and Aberdeen Asian Smaller Companies Investment Trust, PLC (~5.16%).

**Stability** Succession planning is an on-going exercise performed every year to identify successors for all critical roles. In this way it provides continuity to leadership and can avoid extended and costly vacancies for key position.

**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 is majority owned by ORIX Corporation (49.6%). 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 38 countries and regions around the globe. The group has experience of 54 years of operations and has a total asset base of US\$ 104 bln and equity of US\$ 25 bln as at September 30, 2018.

### Governance

**Board Structure** The Board of Directors (BoD) comprises of nine members, including the Chief Executive Officer (CEO). Apart from CEO, all are non-executive directors including four nominee directors of ORIX Corp. Four out of nine directors are independent including one lady director.

**Members’ Profile** Mr. Khalid Aziz Mirza, Chairman of the BoD, has over 5 decades of experience. He has served as Chairman of SECP and Monopoly Control Authority. Currently, he is chairman of Policy Board of SECP and is also serving on the board of Awwal Mudaraba, Silk Bank and Mediterranean and Gulf Insurance and Reinsurance Co., Bahrain. He is accompanied by other board members who are thorough professionals and carry experiences of managing business affairs in different sectors.

**Board Effectiveness** OLP has constituted three board committees to ensure rigorous monitoring of management’s policies and the Company’s operations (Audit Committee, HR Committee and Risk Committee). These committees are chaired by independent directors.

**Financial Transparency** The external auditors of the company, KPMG Taseer Hadi & Co., Chartered Accountants, issued an unqualified audit opinion pertaining to annual financial statements for FY18. Furthermore, the Board has set up an effective internal audit function that reports independently to the Audit Committee.

### 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. Authorities and responsibilities are clearly and completely defined and it is ensured that the policies and procedures are understood throughout the organization.

**Management Team** Mr. Shaheen Amin, CEO, with an MBA degree from University of Chicago and MS in Risk management from New York University, has been associated with OLP Pakistan since 1986. During his association he has also served as founding general manager of Oman and Saudi leasing companies.

**Effectiveness** OLP has established five management committees to enhance the governance process throughout the organization. These consist of Management Committee, Credit Committee, Asset Liability Management Committee, FATCA and CRS Steering Committee and IT Steering Committee.

**MIS** OLP has in-house developed IT application software that has been periodically upgraded and extended to all areas of the business. The entire branch network of the company is online. As part of ongoing technological developments, the company plans to work on upgrade of IT infrastructure, database and business applications.

**Risk Management Framework** The Board of Directors is responsible for establishing and monitoring risk management framework. Risk Committee of the Board is responsible for ensuring effective implementation of the risk management policies.

### Business Risk

**Industry Dynamics** The business environment in the Country remained challenging during the period under review as the political uncertainty took its toll on overall business sentiments. The cost of doing business has risen and investment finance companies continued to face stiff competition from banks.

**Relative Position** In view of uncertainty in the economy, company was conservative in writing new business and as a result total executions amounted to PKR 2.89bln in 3MFY19 (31% below the executions of PKR 4.17bln in corresponding quarter last year). OLP holds ~80% market share in asset base of the leasing sector.

**Revenues** During 3MFY19, the company’s Net Interest Revenue clocked-in at PKR 489mln (3MFY19: PKR 421mln) up by ~16% YoY. Operating lease income for the quarter witnessed a substantial decrease of 55% YoY as the company realigned its operating lease segment by exiting the generator rental market and replacing the same with construction equipment.

**Performance** Net income of the company during 3MFY19 (PKR 237mln) increased by 22% YoY. This improvement came on back of growth in revenues and write-back of provisions. Administrative and general expenses were 14% higher YoY, primarily due to staff compensation cost which increased from 16% over the comparative quarter. Share of profit from associated companies decreased by 80% from PKR 47mln to PKR 9mln. This was primarily due to sale of Oman OLP Company and reclassification of OLP Egypt as ‘held for sale’.

**Sustainability** With recent increase in policy rate and currency depreciation, OLP foresees a challenging period ahead before the economy settles down. Company’s stance will be to take utmost care in booking new business and risk management process will be strengthened to avoid any untoward increase in delinquency rate. Focus will be on increasing geographical outreach and greater diversification of risks to reduce concentrations and maintain a healthy portfolio.

### Financial Risk

**Credit Risk** OLP’s financing book comprised of Lease (Dec18: 80% Jun18: 80%) and Finances (Dec18: 20% Jun18: 20%). This quarter ending Sep18, the company adopted a statistical based model for determining provisions against potential lease and loan losses, which uses historical loss data for provision calculation. Accordingly, a reversal in provision of PKR 30mln was recorded and loan loss coverage ratio decreased from 105% at Jun18 to 96% at Sep18.

**Market Risk** At Sep18, investment book of the company was 31% of its equity. Major portion of Investment portfolio is represented by strategic investments (55%). Strategic investments include investment in ORIX Services Pakistan (Private) Limited (PKR 182mln), ORIX Modaraba (PKR 140mln), Saudi ORIX Leasing Company (PKR 693mln), OPP (Private) Limited (PKR 88mln), and ORIX Leasing Egypt SAE (PKR 172mln). During FY18, ORIX Leasing disposed of 11.64% shareholding in Oman ORIX Leasing Company and intends to dispose off 23% shareholding in ORIX Leasing Egypt which was reclassified as ‘held for sale’.

**Liquidity And Funding** Company’s main source of funding remains Bank borrowing and Certificates of Deposit. OLP maintains a fairly healthy funding structure, leveraging stands at ~69% end-Sep18 (FY18: 70%). Although interest rates increased sharply but finance cost of the company decreased by 3% YoY. Total borrowings of the company stood at PKR 16bln as compared to PKR 17.1 bln at Jun18.

**Capitalization** Capital structure of the company benefited by the issuance of right shares. In FY18, OLP issued 57.1mln right shares at premium of 250%. The capital adequacy ratio of the company stood at 24% as at Sep18 (FY18: 25%; FY17: 14%) against the minimum requirement of 10%. Total Debt/ Equity stands at 2.2x as at Sep18 (FY18: 2.4x; FY17: 4.3x). The company is well equipped to handle any contingencies owing to unutilized short-term and long-term lines of PKR 2.7bln and PKR 1.5bln, respectively, at end-Sep18.

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**ORIX Leasing Pakistan Limited**
*PKR mln*

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
	3MFY19	FY18	FY17	FY16
	Unaudited	Audited	Audited	Audited
<b>Assets</b>				
Loans & Finances	4,546	4,537	3,661	3,280
Net Investment in Finance Lease	17,719	17,972	16,829	17,055
Operating Lease Assets	718	761	976	1,166
Investments	2,315	2,320	3,563	4,255
Other Assets	837	1,173	1,153	1,308
Non-Performing Finances	1,333	1,246	1,219	1,165
Less: Accumulated provision (specific/prudential)	(1,280)	(1,310)	(1,305)	(1,328)
<b>Total Assets</b>	<b>26,188</b>	<b>26,699</b>	<b>26,096</b>	<b>26,900</b>
<b>Liabilities</b>				
Certificates of Deposit	5,006	5,276	6,028	9,764
Borrowings	11,402	11,774	13,343	11,016
Other Liabilities	2,285	2,400	2,258	1,943
<b>Equity</b>				
Total Equity	7,495	7,249	4,466	4,177
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>26,188</b>	<b>26,699</b>	<b>26,096</b>	<b>26,900</b>
<b>INCOME STATEMENT</b>				
Net Interest Revenue	489	1,838	1,446	1,304
Other Income	74	895	367	471
Operating Expenses	(282)	(1,094)	(966)	(857)
Pre-Provision Operating Profit	281	1,639	847	918
(Provision)/Reversals	30	(18)	82	(175)
Share of Profit of Associates	9	99	229	234
Taxes	(83)	(340)	(317)	(217)
(Loss) / Profit after taxation from discontinued operations	-	-	-	(13)
Net Income	237	1,380	841	747
<b>Ratio Analysis</b>				
Cost-to-Total Net Revenue	51%	46%	55%	55%
Borrowings/ (Borrowings + Deposits)	69%	69%	69%	53%
Total Debt / Equity (times)	2.19	2.35	4.34	4.98
Equity / Total Assets	29%	27%	17%	16%
Impaired Lending / Gross Finances	5%	5%	5%	5%
Loan Loss Provisions / Impaired Lending	96%	105%	107%	114%

ORIX Leasing Pakistan Limited

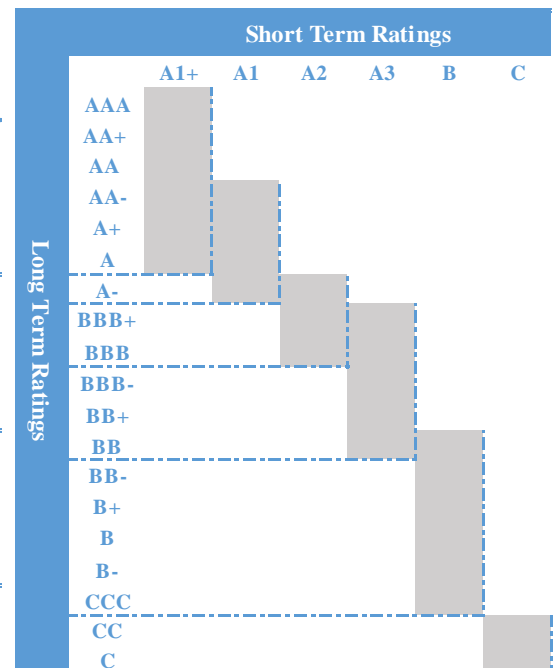
Feb-19

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## Credit Rating Scale & Definitions

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

Long Term Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	Obligations are currently in default.		



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

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

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

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

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

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

### **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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(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)

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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.

(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)

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(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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