



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
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	-
30-Dec-2016	AA+	A1+	Stable	Maintain	-
14-Jan-2016	AA+	A1+	Rating Watch	Maintain	-
09-Sep-2015	AA+	A1+	Rating Watch	Maintain	-
15-Jan-2015	AA+	A1+	Stable	Maintain	-
07-Jan-2014	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 sustainability of operations. The strategy is supplemented by OLP's extended outreach. 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 and addition of value-added services to standard leasing products. OLP has a diverse product base with financial leasing representing the larger proportion of the earning assets pie. The Company has also built up a sizeable finances portfolio comprising of vehicles, microfinance and Islamic finance. OLP is aiming to develop non-spread based income streams to maximize its return without taking extended risk. Its strength of 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. In the current subdued economic environment, OLP is closely monitoring the risk profile of its portfolio and risk management. An overall cautious approach is being taken, as also reflected from the reduced rate of new business. The Company maintains a fairly healthy funding structure; main source of funding remains bank borrowing and CoDs. OLP's capital structure is strong. 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 the Company'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

Name of Rated Entity	ORIX Leasing Pakistan Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_NBFC_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Modaraba & NBFCs(Mar-19)
Rating Analysts	Muhammad Obaid muhammad.obaid@pacra.com +92-42-35869504



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 33 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 (~12.18%), 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 37 countries and regions around the globe. The group has experience of 55 years of operations and has a total asset base of US\$ 115 bln and equity of US\$ 27 bln as at June 30, 2019.

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 and Half yearly review of Financial statements. 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 Under current economic environment and cautious business approach, the Company has booked new business of PKR 10.3bln in 9MFY19 which is 21% below than the business of PKR 13bln in the corresponding period of last year. OLP holds ~82% market share in asset base of the investment banking sector.

Revenues During 9MFY19, the company’s Net Interest Revenue clocked-in at PKR 1,577mln (9MFY18: PKR 1,332mln) up by ~18% YoY. Operating lease income for the period witnessed a substantial decrease of 24% YoY as the Company has exited the short term generator rental market and is realigning its operating lease business in line with current market needs.

Performance Net income of the company during 9MFY19 (PKR 764mln) decreased by 32% YoY. The corresponding period’s profit included a one-time gain of PKR 677mln on sale of investment of OLP in Oman ORIX Leasing SAOG (OOL). Excluding this gain, the net income for the current period was 16% higher than last year. Administrative and general expenses were 11% higher YoY, primarily due to staff related expenses which increased from 12% over the comparative period. Share of profit from associated companies decreased by 46% from PKR 70mln to PKR 38mln. Current profit includes share of profit from Saudi ORIX Leasing Company (SOLC) only while prior period’s profit also included share of profit from OOL and ORIX Leasing Egypt (OLE). Investment in OOL was sold in March 2018 while investment in OLE was classified as ‘held for sale’ in June 2018.

Sustainability As the Company foresees stress in business activities in the short to medium term, focus will be on risk management and diversification in new business. It is expected that the Government will work on structural reforms and ease of doing business which will improve business sentiment and growth in future and create more opportunities for business growth in the long term.

Financial Risk

Credit Risk OLP’s financing book comprised of Lease (Mar19: 80% Jun18: 80%) and Finances (Mar19: 20% Jun18: 20%). This period ending Mar19 new statistical model for provisioning, which considers the Company’s historical data and is compliant with the provisioning requirements of IFRS 9, has been adopted. Accordingly, a reversal in provision of PKR 174mln was recorded and loan loss coverage ratio decreased from 105% at Jun18 to 85% at Mar19.

Market Risk At Mar19, investment book of the company was 29% of its equity. Major portion of Investment portfolio is represented by strategic investments (62%). Strategic investments include investment in ORIX Services Pakistan (Private) Limited, ORIX Modaraba, Saudi ORIX Leasing Company, OPP (Private) Limited, and ORIX Leasing Egypt SAE. The Company intends to dispose off its 23% and 45% shareholding in ORIX Leasing Egypt and OPP (Private) Limited respectively which were 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 ~67% end-Mar19 (FY18: 70%). As interest rates increased sharply therefore finance cost of the company increased by 5% YoY. Total borrowings of the company stood at PKR 15.58bln as compared to PKR 17bln at Jun18.

Capitalization The capital adequacy ratio of the company stood at 28% as at Mar19 (FY18: 25%; FY17: 16%) against the minimum requirement of 10%. Total Debt/Equity stands at 2.04x as at Mar19 (FY18: 2.35x; FY17: 4.34x).



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PKR mln

BALANCE SHEET	31-Mar-19	30-Jun-18	30-Jun-17	30-Jun-16
	9MFY19	FY18	FY17	FY16
	Unaudited	Audited	Audited	Audited
Assets				
Loans & Finances	4,612	4,537	3,661	3,280
Net Investment in Finance Lease	17,318	17,972	16,829	17,055
Operating Lease Assets	634	761	976	1,166
Investments	2,235	2,320	3,563	4,255
Other Assets	785	1,173	1,153	1,308
Non-Performing Finances	1,334	1,246	1,219	1,165
Less: Accumulated provision (specific/prudential)	(1,136)	(1,310)	(1,305)	(1,328)
Total Assets	25,782	26,699	26,096	26,900
Liabilities				
		54%		
Certificates of Investment	4,252	5,276	6,028	9,764
Borrowings	11,337	11,774	13,343	11,016
Other Liabilities	2,551	2,400	2,258	1,943
Equity				
Total Equity	7,642	7,249	4,466	4,177
TOTAL LIABILITIES & EQUITY	25,782	26,699	26,096	26,900
INCOME STATEMENT				
Net Interest Revenue	1,577	1,838	1,446	1,304
Other Income	195	895	367	471
Operating Expenses	(887)	(1,094)	(966)	(857)
Pre-Provision Operating Profit	885	1,639	847	918
(Provision)/Reversals	163	(18)	82	(175)
Share of Profit of Associates	38	99	229	234
Taxes	(322)	(340)	(317)	(217)
(Loss) / Profit after taxation from discontinued operations	-	-	-	(13)
Net Income	764	1,380	841	747
Ratio Analysis				
Cost-to-Total Net Revenue	51%	46%	55%	55%
Borrowings/ (Borrowings + Deposits)	73%	69%	69%	53%
Total Debt / Equity (times)	2.04	2.35	4.34	4.98
Equity / Total Assets	30%	27%	17%	16%
Impaired Lending / Gross Finances	6%	5%	5%	5%
Loan Loss Provisions / Impaired Lending	85%	105%	107%	114%

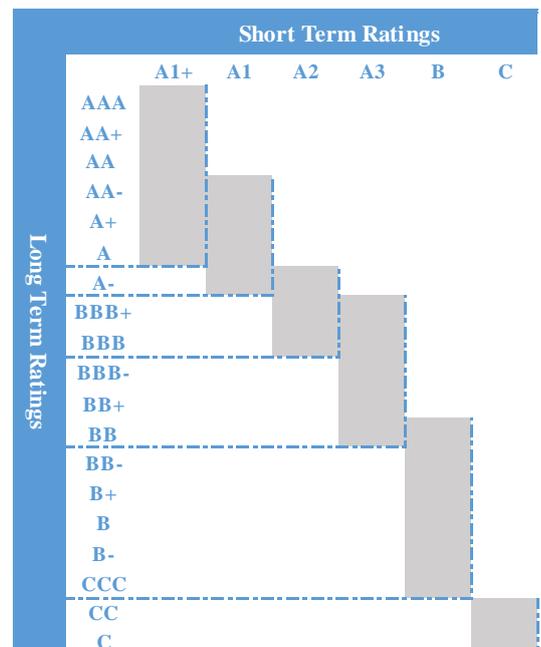
ORIX Leasing Pakistan Limited

Aug-19

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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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

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.
- (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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