



The Pakistan Credit Rating Agency Limited

## Rating Report

### ORIX Leasing Pakistan Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
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	-

#### 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. OLP has further strengthened the risk framework by forming a Risk Committee of the Board. The management, while exploring various options to garner future growth, continues to remain risk conscious. Enduring emphasis has been laid on the consolidation of operations and asset quality in the wake of pending risks inflation. Deployment of fresh funds has been lowered on the comparative scale, yet the profits from core business have seen growth. Despite, the challenges on the macroeconomic front, OLP is poised to exploit all profitable opportunities, provided risk matrix is not compromised. 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. 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

<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>	PACRA_Methodology_NBFC(Jun-19),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria   Rating Modifier(Jun-19)
<b>Related Research</b>	Sector Study   Modaraba & NBFCs(Mar-19)
<b>Rating Analysts</b>	Usama Liaquat   usama.liaquat@pacra.com   +92-42-35869504



## Profile

**Structure** ORIX Leasing Pakistan Limited (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 34 years provides OLP a distinctive competitive edge.

**Operations** OLP offers value-added financial products and innovative customised 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 (~10.95%), State Life Insurance Corporation (~5.25%), and Aberdeen Asian Smaller Companies Investment Trust, PLC (~5.16%).

**Stability** All critical departments are headed by experienced professionals having long associations with the Company. Succession planning is an important exercise performed every year to identify successors for all critical roles, which provides continuity to leadership and can avoid extended and costly vacancies for key positions.

**Business Acumen** ORIX Corp., established in Japan in 1964 as a leasing company, has today widened considerably to include lending, investment, life insurance, banking, asset management, automobile, real estate, and environment and energy-related business. OLP has experience of over 34 years in local market, especially in the SME sector, and also benefits from the experience of ORIX Corp.

**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 as at September 30, 2019. The group has experience of 56 years of operations and has a total asset base of JPY 12.8trln and equity of JPY 3trln as at December 31, 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. Another independent director, Mr. Naveed Kamran Baloch, is the current finance secretary of Pakistan. Other board members are also 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 FY19. The Company has appointed A.F. Fergusons & Co. as their auditors for FY20. 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, measures taken by the Government towards economic stabilisation has impacted overall business sentiments. The slowdown in the economy has affected the demand for leasing. Transportation sector has been under strain and disbursements in commercial vehicle business were reduced. The cost of doing business has risen and investment finance companies continued to face stiff competition from banks.

**Relative Position** Under prevailing business environment in the Country, OLP adopted a cautious business approach and focused on risk management and portfolio diversification, rather than asset growth. Reduced business volumes and portfolio size was observed in all segments of the business except Consumer Auto. The overall disbursement during the year was PKR 13.9bln with the decrease of 19% as compared to PKR 17.2bln achieved in FY2018. As per the latest available information, OLP holds ~82% market share in asset base of the investment banking sector.

**Revenues** During FY19, the company's Net Interest Revenue clocked-in at PKR 2,131mln (FY18: PKR 1,838mln) up by ~16% YoY. Operating lease income for the period witnessed a substantial decrease of 26% YoY as the Company has exited the short term generator rental market and has realigned its operating lease business in newly acquired cranes. During 3MYFY20, net interest revenue reflected growth of 14% as compared to corresponding period.

**Performance** Company achieved a milestone of PKR 1bln net profit for the second consecutive year. Net income of the company during FY19 (PKR 1.023mln) decreased by 26% YoY. Last year's profit included a one-time gain of PKR 677mln on sale of investment of OLP in Oman ORIX Leasing (OOL). Net income for 3MYFY20 showed a decline of 2.6% on account of provision against lease & loans of PKR 22.2mln against the reversal of PKR 30.1mln in 3MYFY19. Share of profit from associated companies decreased by 48.6% from PKR 98.6mln to PKR 50.7mln. Current profit includes share of profit from Saudi ORIX Leasing Company only while prior period's profit also included share of profit from OOL and ORIX Leasing Egypt.

**Sustainability** Company's emphasis this year was on consolidation of operations. At the same time, efforts were made to establish the base for launching new products in future when market conditions stabilise. The Company's ability to adjust with changing business conditions has been its strength and focus will be re-diverted towards business growth as soon as conditions warrant.

## Financial Risk

**Credit Risk** OLP's financing book mainly comprised of Lease (Sep19: 79% Jun19: 80%) and remaining includes finances. During FY19 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 190mln was recorded and loan loss coverage ratio decreased from 105% at Jun18 to 64.6% at Sep19.

**Market Risk** At Sep19, investment book of the company was 30% of its equity. Major portion of Investment portfolio is represented by strategic investments (61%). Strategic investments include investment in ORIX Services Pakistan (Private) Limited, ORIX Modaraba and Saudi ORIX Leasing Company.

**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 ~64% end-Sep19 (FY18: 70%). Total borrowings of the company stood at PKR 14.86bln as compared to PKR 17bln at Jun18.

**Capitalization** The capital adequacy ratio of the company stood at 27% as at Jun19 (Jun18: 25%) against the minimum requirement of 10%. Total Debt/ Equity stands at 1.82x as at Sep19 (Jun18: 2.35x; Jun17: 4.34x).



The Pakistan Credit Rating Agency Limited

**ORIX Leasing Pakistan Limited**

PKR mln

BALANCE SHEET	30-Sep-19	30-Jun-19	30-Jun-18	30-Jun-17
	3MFY20	FY19	FY18	FY17
	Management	Audited	Audited	Audited
<b>Assets</b>				
Loans & Finances	4,801	4,763	4,537	3,661
Net Investment in Finance Lease	16,231	17,004	17,972	16,829
Operating Lease Assets	568	606	761	976
Investments	2,456	2,376	2,320	3,563
Other Assets	1,050	906	1,173	1,153
Non-Performing Finances	1,336	1,178	1,246	1,219
Less: Accumulated provision (specific/prudential)	(863)	(842)	(1,310)	(1,305)
<b>Total Assets</b>	<b>25,579</b>	<b>25,991</b>	<b>26,699</b>	<b>26,096</b>
<b>Liabilities</b>				
Certificates of Investment	4,231	4,259	5,276	6,028
Borrowings	10,638	11,387	11,774	13,343
Other Liabilities	2,522	2,332	2,400	2,258
<b>Equity</b>				
Total Equity	8,189	8,013	7,249	4,466
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>25,579</b>	<b>25,991</b>	<b>26,699</b>	<b>26,096</b>
<b>INCOME STATEMENT</b>				
Net Interest Revenue	558	2,131	1,838	1,446
Other Income	69	273	895	367
Operating Expenses	(288)	(1,188)	(1,094)	(966)
Pre-Provision Operating Profit	338	1,215	1,639	847
(Provision)/Reversals	(22)	182	(18)	82
Share of Profit of Associates	9	51	99	229
Taxes	(94)	(425)	(340)	(317)
(Loss) / Profit after taxation from discontinued operations	-	-	-	-
Net Income	231	1,023	1,380	841
<b>Ratio Analysis</b>				
Cost-to-Total Net Revenue	46%	49%	46%	55%
Borrowings/ (Borrowings + Deposits)	72%	73%	69%	69%
Total Debt / Equity (times)	1.82	1.95	2.35	4.34
Equity / Total Assets	32%	31%	27%	17%
Impaired Lending / Gross Finances	6%	5%	5%	5%
Loan Loss Provisions / Impaired Lending	65%	71%	105%	107%

ORIX Leasing Pakistan Limited

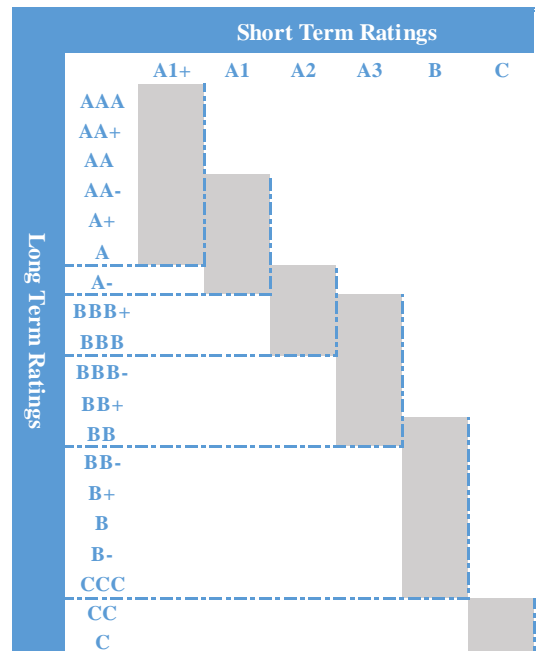
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## Credit Rating Scale & Definitions

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)

### **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)

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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 | 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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