



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
03-Mar-2021	AA+	A1+	Stable	Maintain	-
04-Mar-2020	AA+	A1+	Stable	Maintain	-
28-Aug-2019	AA+	A1+	Stable	Maintain	-
26-Feb-2019	AA+	A1+	Stable	Maintain	-
16-Aug-2018	AA+	A1+	Stable	Maintain	-
12-Feb-2018	AA+	A1+	Stable	Maintain	-
23-Jun-2017	AA+	A1+	Stable	Maintain	-
30-Dec-2016	AA+	A1+	Stable	Maintain	-
14-Jan-2016	AA+	A1+	Rating Watch	Maintain	-
09-Sep-2015	AA+	A1+	Rating Watch	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect OLP's leading market position in the industry. In the current economic conditions, the focus of the Company remained on risk management and risk diversification. The presence of three independent and four non-executive Directors on the Board, having vast industry experience in their respective fields, provides extra strength to the Company's standing and governance structure. Further, the Company utilizes its experience of the past thirty-four years to gauge the market situation and take right decisions in the fast changing environment.

COVID-19 has raised multiple challenges for corporate and financial sectors. While ramifications of the pandemic are still unfolding, the economic wheel has started rolling. This has been positively cushioned by steps taken by the regulatory and governing bodies including reduction in the interest rates. Under challenging conditions, OLP remained focused on maintaining the quality of its assets and exploring various options to maintain profitability, which was successfully achieved in the recently reported period.

The economic revival with impetus on construction sector along with the growth of automobile sector bodes well for the company. The Company is committed to expanding its portfolio with extreme caution and maintaining a quality portfolio by mitigating respective risk.

The Company maintains a fairly healthy funding structure; main source of funding remains bank borrowing and CoDs. The Company's ability to maintain its market position while generating sound profitability is due to a diverse customer base. Finance leasing represented the major portion of the earning assets while financing portfolio is also increasing at a rapid pace due to high demand for financing of saloon cars.

The Company's rating also depends 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	Methodology NBFC(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Modaraba & NBFCs(Apr-20)
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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 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 (~7.92%), State Life Insurance Corporation (~5.25%), and Aberdeen Standard Asian Focus, 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 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 December 31, 2020. The group has experience of 56 years of operations and has a total asset base of JP¥ 13.2trln and equity of JP¥ 3trln as at December 31, 2020.

Governance

Board Structure The Board of Directors (BoD) comprises of nine members, including the Chief Executive Officer (CEO), three independent directors and four nominee directors of ORIX Corp.

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 member of Policy Board of SECP and is also serving on the board of Awwal Mudaraba, Silk Bank and Muree Brewery Co. Ltd. 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 four board committees to ensure rigorous monitoring of management's policies and Company's operations (Audit Committee, HR Committee, Risk Committee and Credit Committee). All committees are chaired by independent directors, except Credit Committee which is chaired by a non-executive director.

Financial Transparency The external auditors of the company, A.F. Ferguson & Co, Chartered Accountants issued an unqualified audit opinion pertaining to annual financial statements for FY20. Furthermore, the Board has set up effective internal audit and compliance functions which report 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 of ORIX Group.

Effectiveness OLP has established four management committees to enhance the governance process throughout the organization. These consist of Management Committee, Credit Committee, Asset Liability Management 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 and transformation of IT infrastructure, database and business applications.

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

Business Risk

Industry Dynamics The business environment in Pakistan remained challenging amidst COVID-19. Post-lockdown, the economy has revived as a result of growing appetite, particularly in corporate sector. Automobile sector has shown unprecedented growth and disbursements in saloon cars business have augmented due to the low interest rate regime.

Relative Position OLP has adopted a cautious business approach and focused on risk management and portfolio diversification. The company remains the largest in the leasing segment in Pakistan.

Revenues During 3MFY21, the company's Net Interest Revenue clocked-in at PKR 477mln (3MFY20: PKR 558mln) down by ~15% YoY due to the prevailing low interest rates and slow down in business volumes during lockdown period.

Performance Pre-tax profit of the company during 3MFY21 was steady at Rs.326 million (3MFY20 PKR 325mln).

Sustainability OLP has 34 years of experience in the SME market. Post Covid-19, the Company's emphasis has been on consolidation of operations. At the same time, efforts were made to establish the base for launching new products in future when market conditions stabilize. OLP's ability to adjust with changing business conditions has been its strength.

Financial Risk

Credit Risk OLP's financing book remained stable and mainly comprised of Lease (Sep20: 72% Sep19: 78%) and vehicle financing. The company is one of the few in the financial industry to adopt IFRS9 to measure expected credit losses for its portfolio. The loan loss coverage ratio increased from 65% in Sep-19 to 70% in Sep-20 due to increase in provisions, giving a healthy coverage ratio over non-performing loans.

Market Risk Market risk relates to the fair value or the future cash flows of a financial instrument fluctuating as a result of changes in market prices. The company has developed comprehensive policies to mitigate currency and other price risks.

Liquidity And Funding Company's main source of funding remains Bank borrowing and Certificates of Deposit. OLP maintains a healthy funding structure. Total borrowings of the company stood at PKR 12.5bln as compared to PKR 14.8bln at Sep19 giving a gearing ratio of only 1.48x as at Sep20 (Sep19: 1.82x).

Capitalization The capital adequacy ratio of the company stood at 31% as at Sep20 (Sep19: 30%) against the minimum requirement of 10%.



The Pakistan Credit Rating Agency Limited

ORIX Leasing Pakistan Limited

BALANCE SHEET	30-Sep-20	30-Jun-20	30-Jun-19	30-Jun-18
	3MFY21	FY20	FY19	FY18
Assets				
Loans & Finances	5,427	4,507	4,763	4,537
Net Investment in Finance Lease	13,150	12,939	17,004	17,972
Operating Lease Assets	526	589	606	761
Investments	2,150	2,772	2,376	2,320
Other Assets	1,528	1,528	906	1,173
Non-Performing Finances	1,608	1,814	1,178	1,246
Less: Accumulated provision (specific/prudential)	(1,130)	(1,151)	(842)	(1,310)
Total Assets	23,259	22,999	25,991	26,699
Liabilities				
Certificates of Investment	4,304	4,407	4,259	5,276
Borrowings	8,193	8,454	11,387	11,774
Other Liabilities	2,300	1,904	2,332	2,400
Equity				
Total Equity	8,462	8,234	8,013	7,249
TOTAL LIABILITIES & EQUITY	23,259	22,999	25,991	26,699
INCOME STATEMENT				
Net Interest Revenue	477	2,045	2,131	1,838
Other Income	76	359	273	895
Operating Expenses	(251)	(1,136)	(1,188)	(1,094)
Pre-Provision Operating Profit	303	1,269	1,215	1,639
(Provision)/Reversals	20	(324)	182	(18)
Share of Profit of Associates	3	29	51	99
Taxes	(90)	(271)	(425)	(340)
(Loss) / Profit after taxation from discontinued operations	-	-	-	-
Net Income	236	702	1,023	1,380
Ratio Analysis				
Cost-to-Total Net Revenue	45%	47%	49%	46%
Borrowings/ (Borrowings + Deposits)	66%	66%	73%	69%
Total Debt / Equity (times)	1.48	1.56	1.95	2.35
Equity / Total Assets	36%	36%	31%	27%
Impaired Lending / Gross Finances	8%	9%	5%	5%
Loan Loss Provisions / Impaired Lending	70%	63%	71%	105%

ORIX Leasing Pakistan Limited

Mar-21

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+	
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-	
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	
CC	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.
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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

Restrictions

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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)
- (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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