



The Pakistan Credit Rating Agency Limited

## Rating Report

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

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Mar-2022	AA+	A1+	Stable	Maintain	-
03-Mar-2021	AA+	A1+	Stable	Maintain	-
04-Mar-2020	AA+	A1+	Stable	Maintain	-
28-Aug-2019	AA+	A1+	Stable	Maintain	-
26-Feb-2019	AA+	A1+	Stable	Maintain	-
16-Aug-2018	AA+	A1+	Stable	Maintain	-
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 presence of three independent, two executive and four non-executive Directors on the Board, having vast industry experience in their respective fields, provides comfort to the governance structure of the Company. Further, the Company utilizes its experience of the past thirty-five years to gauge the market situation and take right decisions in the evolving industry environment.

In the aftermath of COVID-19, the recovering economy paved a path to induce growth in the financial sector. Such growth inspired customer confidence, directing business towards the financial industry, duly reflected in the financial performance of the Company. Going forward, the increasing trend in the policy rate may have a mixed customer response and contractionary economic conditions may pose a challenge in the upcoming period. Nevertheless, OLP remains focused on maintaining the quality of its financial assets and exploring additional options to enhance profitability, successfully achieved in the reported period. The Company is committed to expanding its portfolio with extreme caution and adopting prudent portfolio management by maintaining its respective risk.

The Company maintains a fairly healthy funding structure; main source of funding remains bank borrowing and CoDs, with additional privately placed term finance certificates being issued to strengthen the funding structure of OLP. The Company's ability to maintain its market position while generating sound profitability is due to a diverse customer base. Investment in finance leasing represented a major portion of the earning assets, while finance and loan portfolio is also increasing at a rapid pace due to high demand for financing of saloon cars with further products in this segment being envisaged. The Company maintains a strong CAR of 29.1% as at 6MFY22 comfortably fulfilling the minimum requirement of 10%.

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

<b>Name of Rated Entity</b>	OLP Financial Services Pakistan Limited (Formerly ORIX Leasing Pakistan Limited)
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Non-Banking Finance Companies Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Modaraba & NBFCs(Apr-21)
<b>Rating Analysts</b>	Wajahat Arjumand Ansari   wajahat.ansari@pacra.com   +92-42-35869504



## Profile

**Structure** OLP Financial Services Pakistan Limited, (hereinafter referred to as “the Company” or “OLP”) commenced commercial operations in 1986 as a private limited company and later converted into a public limited company in 1987. Formerly the Company was known as ORIX Leasing Pakistan, however in order to broaden its operational horizon, the Company changed its operating license from “Leasing” to “Investment Finance Services”.

**Background** OLP Financial Services Pakistan Limited was established in 1986 as a joint venture between ORIX Corporation, Japan and local investors. The blend of international experience and local expertise garnered over the last 35 years provides OLP a unique competitive edge.

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

## Ownership

**Ownership Structure** The shareholding of the Company is composed with ORIX Corp. being the key shareholder at 49.58%, with further prominent shareholding held by Arif Habib Equity (Pvt.) Limited (7.53%) and State Life Insurance Corporation (5.25%).

**Stability** Each department of the Company is headed by experienced professionals of their respective fields. Succession planning is undertaken for each critical role of the Company, resultant in time and cost efficiencies, ultimately contributing to the smooth operations of the Company.

**Business Acumen** ORIX Corp. was set up in Japan in 1964 as a leasing company, with the Company exploring various new opportunities to expand their business scope, including lending, investment, asset management and automobile among other operations.

**Financial Strength** ORIX Corp. is listed on the Tokyo and New York Stock Exchanges, and is considered one of Japan’s leading integrated financial services groups. The group has experience of 56 years of operations and has a total asset base of JPY 14.1trln (US\$: 122.5bln) and topline of JPY 1.9trln (US\$: 16.5bln) as at December 31, 2021.

## Governance

**Board Structure** The board of the Company is structured with nine members, including three independent, four non-executive and two executive directors (CEO & Dy. CEO). Wherein four nominees of ORIX Group are present on the board.

**Members’ Profile** Mr. Khalid Aziz Mirza, Chairman of the board, has over 5 decades of experience. He served as IFC’s Chief of Mission in Turkey and Chief of Regional Mission in Thailand. He has also served as Chairman of SECP and Monopoly Control Authority.

**Board Effectiveness** Four board level committees have been established in order to ensure effective board oversight, namely: i) Audit Committee ii) Human Resource and Remuneration Committee iii) Risk Committee iv) Credit Committee.

**Financial Transparency** The external auditors of the company, A.F. Fergusons & Co., issued an unqualified audit opinion pertaining to annual financial statements for FY21.

## Management

**Organizational Structure** OLP has a well-established organizational structure to inform, direct, manage and monitor the activities of the Company toward the achievement of its objectives.

**Management Team** Mr. Shaheen Amin, the Chief Executive Officer of OLP, holds a MBA degree from University of Chicago and MS in Risk management from New York University, and has been associated with OLP since 1986. He is supported by a capable management team

**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, with all committee holding the presence of senior staff members.

**MIS** OLP has in-house IT application software that has periodically been upgraded and extended to all areas of the business. The entire branch network of the Company is online. The Company has implemented numerous policies and procedures, such as IT Security Policy and Business Continuity & Disaster Recovery Plan, in order to mitigate the risks which may arise due to extensive usage of information technology.

**Risk Management Framework** Minimum thresholds for approval of credit have been defined by the risk department and all credits falling below the minimum level of threshold are subject to a Post Execution Risk Review (PERR), where the risk department performs a thorough review of credit documents.

## Business Risk

**Industry Dynamics** The business environment in the country remained challenging, measures taken by the Government towards economic stabilization has impacted overall business sentiments. Due to adverse economic indicators in recent periods, the scenario has turned to a gloomy outlook. The transportation sector has also been under strain and disbursements in the vehicle business were conservatively reduced, however gradual revival of the sector seems imminent. The cost of business has risen and NBFCs continue to face stiff competition from banks.

**Relative Position** The Company continues to maintain its prudent approach, combined with portfolio management and further product diversification. OLP has maintained its position as the largest leasing service provider of the industry.

**Revenues** During FY21, the Net Interest Revenue observed a minor decline of 2.2% on a YoY basis (FY21: PKR 1,999mln; FY20: PKR 2,045mln) on account of reduced returns generated from finance lease segment. The Company has achieved Net Interest Revenue of PKR 503mln for the period ended 3MFY22 and looks well on its way towards stable results.

**Performance** The Net Income of the Company achieved substantial growth of 30.3% for FY21, as net income increase to PKR 915mln for the period, compared to PKR 702mln in the previous peer period, depicting strong COVID recovery for the Company, further supported by reversal of provision for potential lease and other loan losses. The Company has accomplished PKR 214mln for the period ended 3MFY22, seemingly well on its way towards healthy profits.

**Sustainability** Post COVID-19 recovery, the Company has set its target on portfolio expansion, further depicted through its change in license. The Company looks forward towards launching of new products vis a vis maintain their current portfolio.

## Financial Risk

**Credit Risk** A stable financing book has been established by the Company, majorly comprising of leases and vehicle financing. The Company continues to be one of the few participants in the financial industry to adopt IFRS-9, in order to measure expected credit losses for its portfolio. The loan loss coverage ratio increased to 87% in Jun21 from 63% in FY20 observing stability in provisions being recorded during the period and giving a healthy coverage ratio over impaired lending.

**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** Bank borrowing and Certificates of Deposit continue to be OLP’s main source of funding. Total borrowings of the Company stood at PKR 14.1bln for FY21 being compared to PKR 12.8bln for FY20, with total borrowings being increased to PKR 14.9bln for 3MFY22. The borrowing results translated into a gearing ratio of 1.65x as at Jun21 (Jun20: 1.56x), with 3MFY22 observing an elevated gearing ratio of 1.69x on account of increased borrowing.

**Capitalization** The capital adequacy ratio of the Company stood at 32% as at FY21 (FY20: 34%) against the minimum requirement of 10%..



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## OLP Financial Services Pakistan Limited

BALANCE SHEET	30-Sep-21	30-Jun-21	30-Jun-20	30-Jun-19
	3MFY22	FY21	FY20	FY19
<b>Assets</b>				
Loans & Finances	8,639	7,604	4,490	4,750
Net Investment in Finance Lease	13,202	13,072	12,939	17,004
Operating Lease Assets	226	225	589	606
Investments	2,389	2,300	2,794	2,393
Other Assets	1,418	1,417	1,524	902
Non-Performing Finances	1,243	1,271	1,814	1,178
<i>Less: Accumulated provision (specific/prudential)</i>	(1,083)	(1,101)	(1,151)	(842)
<b>Total Assets</b>	<b>26,034</b>	<b>24,786</b>	<b>22,999</b>	<b>25,991</b>
<b>Liabilities</b>				
Certificates of Investment	4,903	4,869	4,407	4,259
Borrowings	10,019	9,203	8,454	11,387
Other Liabilities	2,304	2,188	1,904	2,332
<b>Equity</b>				
Total Equity	8,807	8,526	8,234	8,013
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>26,034</b>	<b>24,786</b>	<b>22,999</b>	<b>25,991</b>
<b>INCOME STATEMENT</b>				
Net Interest Revenue	503	1,999	2,045	2,131
Other Income	84	367	359	273
Operating Expenses	(309)	(1,136)	(1,136)	(1,188)
Pre-Provision Operating Profit	277	1,231	1,269	1,215
(Provision)/Reversals	12	18	(324)	182
Share of Profit of Associates	11	35	29	51
Taxes	(87)	(369)	(271)	(425)
(Loss) / Profit after taxation from discontinued operations	-	-	-	-
Net Income	214	915	702	1,023
<b>Ratio Analysis</b>				
Cost-to-Total Net Revenue	53%	48%	47%	49%
Borrowings/ (Borrowings + Deposits)	67%	65%	66%	73%
Total Debt / Equity (times)	169%	165%	156%	195%
Equity / Total Assets	34%	34%	36%	31%
Impaired Lending / Gross Finances	5%	6%	9%	5%
Loan Loss Provisions / Impaired Lending	87%	87%	63%	71%

OLP Financial Services Pakistan Limited

Sep-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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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.
BBB-	
BB+	<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.
BB	
BB-	
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-	
CCC	
CC	<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.
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><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(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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