



The Pakistan Credit Rating Agency Limited

Rating Report

Orient Rental Modaraba

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Rating History table with columns: Dissemination Date, Long Term Rating, Short Term Rating, Outlook, Action, Rating Watch. Rows show dates from 2020 to 2024 with ratings A- and A2, and outlooks like Stable and Initial.

Rating Rationale and Key Rating Drivers

Orient Rental Modaraba ("the Modaraba") has an adequate asset base, the quality of its assets is good and profits are depicting a sustained trend. These parameters are pivotal to ratings. The Modaraba benefits from its association with Orient Energy Systems (Pvt.) Ltd. through Eman Management (Pvt.) Ltd. — the Modaraba management company — so as to reap the benefits of complementary business activities. The presence of industry veterans in the management along with the implementation of a robust internal control system remains pivotal. The Modaraba is primarily involved in the rental and operations & maintenance (O&M) of Genset and other machinery. A major portion of its revenue is generated from Ijarah Rentals supplemented by O&M agreements. Gensets are predominantly installed in the textile industry followed by food & beverages, while excavators are utilized in the construction of dams. Additionally, revenue from O&M services is primarily generated from health care followed by the textile industry. The ratings are supported by Modaraba's sustained business and financial performance. During FY24, the topline improved by ~20%, primarily driven by Ijarah rentals (~60%), followed by operations and maintenance (~40%). Going forward, the Modaraba aims to enhance business volumes by exploring new rental avenues, such as solar panel maintenance and more focus on Diminishing Musharakah; while, cost structures require attention so as to support the bottom line. On the financial risk front, the Modaraba remains adequate, supported by manageable leverage. Sustained capacity utilization and a streamlined governance framework remain crucial for the ratings.
The ratings are dependent on the relative positioning of the Modaraba in the sector and sustained asset quality: sustaining bottom-line profitability is important. Keeping the financial profile intact remains crucial. Any significant change in the risk profile may adversely impact the ratings.

Disclosure table with rows: Name of Rated Entity (Orient Rental Modaraba), Type of Relationship (Solicited), Purpose of the Rating (Entity Rating), Applicable Criteria (Methodology | Rating Modifiers(Apr-24), Methodology | Non-Banking Finance Companies Rating(Jun-24), Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)), Related Research (Sector Study | Non-Banking Finance Companies(Apr-24)), Rating Analysts (Mir Muhammad Hamza | Mir.Hamza@pacra.com | +92-42-35869504)



Profile

Structure Orient Rental Modaraba ('the Modaraba') is a Non-Banking Financial Institution and is listed on Pakistan Stock Exchange.

Background The Modaraba is associated with Orient Energy Systems (Pvt.) Ltd. ('Orient Energy') that provides engineering, power generation and industrial solutions. The Modaraba is registered under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The Modaraba structurally operates through Eman Management Company (Pvt.) Ltd. ('the Management Company') and was formed by spinning off two of the core divisions, generator rental and operation & maintenance of Orient Energy.

Operations The Modaraba commenced operations in Nov-17 as a multi-purpose and perpetual. The Modaraba provides generator/ equipment rental solutions, operations and maintenance services. The renting of equipment is on Ijarah mode and the equipment includes fleet of Power Generation Equipment, Material Handling Equipment and Constructions Machinery. In addition, the Modaraba is also engaged in providing Operation and Maintenance services to various customers.

Ownership

Ownership Structure The Modaraba is (~25%) owned by its Directors, followed by the associated companies (~16.6%). Financial institutions hold ~8.9% stake; while, general public holds ~49.5% stake in the Modaraba.

Stability The ownership of the Modaraba seems stable as the sponsoring Group, Orient Group, is well entrenched in the engineering and power sector of the Country.

Business Acumen Orient Energy has substantial penetration in the engineering and power sector and has more than three decades of industry experience.

Financial Strength Orient Energy holds sound financial footing to support the Modaraba, if needs be.

Governance

Board Structure The overall control lies with the six-members Board of Directors. The BoD comprises two Independent Directors, three Non Executive and one Executive Director.

Members' Profile The Board is Chaired by Mr. Ch. Jawaid Iqbal. He holds an experience of more than four decades in the engineering and power sector. Mr. Jawaid is associated with the Modaraba since inception. Ms. Saba Ahmed Agrawalla, an Independent Director, brings over 18 years of extensive experience in Pakistan's leasing industry. Additionally, all other members of the Board of Directors possess diverse professional expertise.

Board Effectiveness To ensure effective and efficient operations, the Board is supported by three key committees: Audit, Human Resources and Remuneration, and Risk Management. Each committee is chaired by an Independent Director. All meetings have adequate presence of the Directors with adequately documentation of minutes.

Financial Transparency The Modaraba's external auditors, M/S. Yousuf Adil Chartered Accountants, has issued an unqualified report pertaining to the financial statements as of FY24. The firm is on SBP's panel in category "A".

Management

Organizational Structure The Modaraba is managed through HR, IT, Finance, Administration, Internal Audit, Procurement, Operations & Maintenance, Logistics, Power Systems and Sales function. Each function is managed by respective Heads reporting directly to the CEO, who then reports to the BoD. However, the Head of Internal Audit and HR reports administratively to the CEO and functionally to the respective BoD committee.

Management Team The Modaraba is led by Mr. Teizoan Kizat as the CEO. He brings in over four decades of experience from the Modaraba industry and has been associated with the Modaraba since Sept-20. Ms. Effat Assad has been serving as the CFO since July 2021 and brings over three decades of experience. The Modaraba is supported by a highly experienced management team.

Effectiveness The Modaraba's operations are overseen by individual functional departments, each reporting directly to the CEO. However, there is potential for improvement, as the absence of a management committee limits oversight. Establishing management committees would enhance monitoring and ensure the more effective execution of operations.

MIS The Modaraba has in-house ERP-based management information system which has been implemented for efficient and timely reporting. The system provides optimal solutions for efficient monitoring of customer proposals, approval processes and execution of facility as well.

Risk Management Framework The Modaraba prudently manages and monitors risk exposure by implementing activities within the established limits set by the Modaraba Management Company.

Business Risk

Industry Dynamics The business environment in the country remained challenging, and measures taken by the Government toward economic stabilization has impacted overall business sentiments. Due to adverse economic indicators in recent periods, the scenario has turned into a gloomy outlook. The transportation sector has also been under strain and disbursements in the vehicle business was conservatively reduced, however gradual revival of the sector seems imminent. The cost of business is lately streamlining as the interest rates have started to fall; however, NBFCs continue to face stiff competition from banks.

Relative Position The Modaraba holds a market share of ~3.3% based on the total assets in the industry and ~6.9% on the basis of the total equity.

Revenues The Modaraba generates revenue from: Ijarah Rentals (~59%) and Operation & Maintenance (~41%). During FY24, topline of Modaraba witnessed an improvement of ~20%, clocking in at ~PKR 2,122mln (FY23: ~PKR 1,762mln). Improvement in revenue was driven from both segments Operation and Maintenance improved by (~27%), while Ijarah Rentals were improved by (~16%). Going forward, revenue diversification is anticipated which may lead to an improved topline.

Performance During FY24, gross profit stood at ~PKR 578mln (FY22: ~PKR 489mln) witnessing an increase of ~18% owing to higher sales reported during the period. Owing to higher policy rates led to increased finance cost (FY24: ~PKR 119mln, FY23: ~PKR 92mln). Profit after tax showed an increase and stood at ~PKR 218mln in FY24 (FY23: ~PKR 187mln). Looking ahead, decrease in policy rates will reduce financial obligations positively impacting net performance of the Modaraba.

Sustainability The Modaraba has recently amended the business objectives clause of its prospectus and aims to implement its strategy to enhance business volumes by exploring new business avenues such as solar panel maintenance thereby strengthening its bottom line. Additionally, it focuses on advancing its growth strategy through the diversification of revenue streams and expanding its operations in the diminishing musharika.

Financial Risk

Credit Risk The Modaraba is carrying significant risks in terms of default in rental payments by the lessee and other risks such as non-possession of the leased asset, misuse by the lessee, accidents, theft, and breakdown. The Modaraba manages its credit risk through a comprehensive credit policy.

Market Risk The Modaraba focuses primarily on core business activities and has no exposure to equity/debt investment. The Modaraba primarily invests in assets used for the Ijarah business. Consequently, the Modaraba's exposure to market risk is negligible.

Liquidity And Funding The liquidity position of the Modaraba remains strong evident from Liquid Assets / Total Funding ratio (FY24: ~60%; FY23: ~17.8%). The Modaraba obtains primary funding from banks and financial institutions through diminishing musharika and the borrowing-to-funding ratio stands at (FY24: ~79.9% FY23 ~85.3%).

Capitalization As of FY24, capital adequacy ratio (CAR) stood at 11% portraying Modaraba's strong position, should adverse circumstances arise. The capital structure of the Modaraba shows an inclination towards leveraging as evidenced by the increased equity-to-total-asset ratio of ~60% as of FY24 (FY23: ~57%).



**Orient Rental Modaraba
Public Limited**

PKR mln

Jun-24

Jun-23

Jun-22

Jun-21

12M

12M

12M

12M

A BALANCE SHEET

1 Total Finance-net	1,588	1,545	1,635	1,599
2 Investments	-	140	-	-
3 Other Earning Assets	247	100	71	161
4 Non-Earning Assets	526	429	343	307
5 Non-Performing Finances-net	(30)	(30)	2	8
Total Assets	2,332	2,184	2,052	2,075
6 Funding	424	596	447	715
7 Other Liabilities	511	335	539	389
Total Liabilities	935	931	986	1,105
Equity	1,397	1,253	1,066	971

B INCOME STATEMENT

1 Mark Up Earned	2,132	1,772	1,696	1,356
2 Mark Up Expensed	(119)	(92)	(65)	(63)
3 Non Mark Up Income	47	15	7	(16)
Total Income	2,059	1,695	1,638	1,277
4 Non-Mark Up Expenses	(1,680)	(1,383)	(1,344)	(1,096)
5 Provisions/Write offs/Reversals	(14)	(23)	(13)	4
Pre-Tax Profit	365	288	281	185
6 Taxes	(147)	(101)	(111)	(29)
Profit After Tax	218	188	170	156

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	81.6%	81.6%	82.1%	85.8%
b ROE	16.5%	16.2%	16.7%	17.4%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	374.9%	259.1%	370.8%	232.1%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A	93.0%	86.2%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	60.5%	17.8%	16.7%	23.2%
b Borrowings from Banks and Other Financial Institutions / Funding	79.9%	85.3%	96.4%	99.8%

4 MARKET RISK

a Investments / Equity	0.0%	11.2%	0.0%	0.0%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	59.9%	57.4%	51.9%	46.8%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	11.4%	17.6%	9.8%	17.3%

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
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

a) Broker Entity Rating	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Company

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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

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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 | Clause 11-(A)(p).
- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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