



The Pakistan Credit Rating Agency Limited

## ORIX LEASING PAKISTAN LIMITED

	NEW [DEC-16]	PREVIOUS [JAN-16]
Long-Term	AA+	AA+
Short-Term	A1+	A1+
Outlook	Stable	RW

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**Profile & Ownership**

- ORIX Leasing Pakistan Limited (OLP) commenced commercial operations in 1986. OLP has a network of 30 branches spread across 26 cities and towns
- OLP is majority owned by ORIX Corporation-Japan (~50%), Majid Al Futtaim Trust (9.32%), State Life Insurance Corporation (SLIC) (5.25%) while rest is distributed among other corporates and general public.
- Listed on Pakistan Stock Exchange.
- In FY16 OLP acquired Standard Chartered Leasing Limited after which its share in leasing industry on the basis of total assets has increased to 84%.
- OLP acquired 100% stake in ORIX Services Pakistan (Private) Limited (Formerly Standard Chartered Services of Pakistan (Private) Limited and 20% stake in ORIX Modaraba (Formerly Standard Chartered Modaraba) which effectively gave OLP management control of the modaraba.
- ORIX Corporation, established in 1964 is a major conglomerate with presence all over the world. Starting with leasing, now ORIX Corporation has interests in many sectors including Asset management, Automobile, Insurance and Energy.

**Governance**

- BoD comprises eight experienced members including the CEO constituting five nominees of ORIX Corporation, one nominee of SLIC and two independent directors.
- Mr. Khalid Aziz Mirza has recently joined the board as chairman.
- The board has made two committees namely Audit committee and Human Resource Committee.
- The BoD is well poised with diverse background and expertise.

**Management**

- Mr. Shaheen Amin assumed the role of CEO of OLP in Feb16. Mr. Amin has been associated with the group since 1986.
- New CEO has brought changes to the organizational structure.
- Four management committees and a professional management team ensures operational efficacy.

**Risk Management**

- Comprehensive risk management systems ensures in-depth evaluation and effective monitoring.
- OLP witnessed increase of 26% in total finance lease.
- Major deployment remains in finance lease (85%) followed by advances (11%), and operating lease (4%).
- Low top 20 concentration in financing book (Jun16: 9%; Jun15: 10%).
- Non performing book deteriorated by 20% after OLP incorporated SCLL's impaired portfolio into its books (FY16: PKR 1,328mln; Jun15: PKR 1,108mln). However, it has provided 100% provision for SCLL's impaired portfolio over 90 days and, as OLP's impaired portfolio over 90days is also 100% provided, there is no further drag on equity expected.

**Performance**

- During FY16, healthy increase in funding base on the back of acquisition of SCLL helped the company in registering growth in finance lease business; thus significantly higher (24%) earning assets.
- Despite increase in administration cost and provisioning expense, one time gain on acquisition of SCLL helped the company in registering higher net income YoY (FY16: PKR 742mln; FY15: PKR 671mln).
- Going forward, OLP intends to capitalize on its strong financial position and is looking forward to add maintenance lease and warehouse lease in future.

**Financial Risk**

- OLP's main source of funding is bank loans (53%) and CoDs (47%). Top 20 concentration in CoD remained at 25% as at end Jun16.
- Liquidity profile remained low (Liquid Assets/ Total Debt; 1QFY17: 8.15%; FY16: 7.76%)
- High Leveraged capital structure (Total Debt/ Equity: 1QFY17: 4.6x; FY16: 5.0x; FY15: 4.6x)

**RATING RATIONALE**

With recent completion of acquisition and subsequent merger of Standard Chartered Leasing with and into ORIX Leasing Pakistan Limited (OLP), the merged entity – OLP – has emerged as a more strong market player given an increase in its market share in overall NBFC sector in general and Leasing sector in particular. OLP's expanded portfolio of assets is well diversified, which is adequately supported by quality risk management framework, and superior technology infrastructure. The ratings draw comfort from the management's efforts to strengthen its control mechanism, which aids in maintaining sound asset quality. The management, while exploring various options to strategic future growth, remains cautious emphasising on improving its spreads. While OLP maintains a fairly healthy funding structure, leveraging remains relatively high as compared to last year. As OLP has also acquired ORIX Services Pakistan (Private) Limited (Formerly Standard Chartered Services of Pakistan (Private) Limited and 20% stake in ORIX Modaraba (Formerly Standard Chartered Modaraba), an expected dividend stream from the Modaraba is likely to add to the bottomline performance of OLP. OLP continues to benefit from historically demonstrated commitment from ORIX Corporation, Japan towards its operations in Pakistan.

**KEY RATING DRIVERS**

The ratings are dependent on the Company's ability to maintain its strong market position while keeping its financial profile intact. Any significant change in its risk profile may adversely impact the ratings.



**The Pakistan Credit Rating Agency Limited**

**Leasing**

**Financials (Summary)**

**Orix Leasing Pakistan Limited**

*PKR mln*

<b>BALANCE SHEET</b>	<b>30-Sep-16</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>	<b>30-Jun-14</b>
	1QFY17	FY16	FY15	FY14
<b>Assets</b>				
Loans & Finances	3,287	3,229	2,551	2,318
Net Investment in Finance Lease	24,902	25,325	20,103	17,016
Operating Lease Assets	1,134	1,166	1,370	1,378
TFCs	-	-	11	22
Investments	4,004	4,242	3,286	2,781
Other Assets	1,177	1,351	997	934
Non-Performing Finances	1,351	1,327	1,108	1,138
<i>Less: Accumulated provision (specific/prudential)</i>	<i>(1,351)</i>	<i>(1,327)</i>	<i>(1,108)</i>	<i>(1,138)</i>
<b>Total Assets</b>	<b>34,504</b>	<b>35,313</b>	<b>28,318</b>	<b>24,449</b>
<b>Liabilities</b>				
Certificates of Investment	8,963	9,750	6,983	6,312
Security Deposits	8,614	8,433	6,805	5,864
Borrowings	10,790	11,016	9,297	7,628
Other Liabilities	1,813	1,943	1,684	1,581
<b>Equity</b>				
Total Equity	4,324	4,171	3,549	3,064
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>34,504</b>	<b>35,313</b>	<b>28,318</b>	<b>24,449</b>
<b>INCOME STATEMENT</b>				
Net Interest Revenue	321	1,415	1,276	1,153
Other Income	74	391	204	203
Operating Expenses	(216)	(857)	(785)	(755)
Pre-Provision Operating Profit	179	949	695	601
(Provision)/Reversals	(27)	(215)	(162)	(184)
Share of Profit of Associates	48	234	275	223
Taxes	(42)	(213)	(180)	(124)
(Loss) / Profit after taxation from discontinued operations	-	(13)	43	-
Net Income	<b>158</b>	<b>742</b>	<b>671</b>	<b>516</b>
<b>Ratio Analysis</b>				
Cost-to-Total Net Revenue	54.6%	47.4%	53.1%	55.6%
Equity / Total Assets	12.5%	11.8%	12.6%	12.5%
Impaired Lending / Gross Finances	4.4%	4.3%	4.4%	5.2%
Loan Loss Provisions / Impaired Lending	100.0%	100.0%	100.0%	100.0%

**Orix Leasing Pakistan Limited**

**Dec-16**

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## STANDARD RATING SCALES & 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 or 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> “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.	

### 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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

### 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’.

### 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, a suspended 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, or e) the entity/issuer defaults.

**Disclaimer:** PACRA's rating is an assessment of the credit standing of an entity/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.



<b>Name of Rated Entity</b>	SME Leasing Limited
<b>Sector</b>	Leasing
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Independent Risk Assessment
<b>Related Criteria and Research</b>	
Rating Methodology	Bank Rating Methodology
Sector Research	Leasing Sector - Viewpoint   Jan16
<b>Rating Analysts</b>	Aisha Khalid                                      Rana Nadeem <a href="mailto:aisha@pacra.com">aisha@pacra.com</a> <a href="mailto:Nadeem@pacra.com">Nadeem@pacra.com</a> (92-42-35869504)                                      (92-42-35869504)
<a href="#">Rating Team Statement</a>	<b>Rating Procedure</b> Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.
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	<b>Surveillance</b> PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating
	<b>Reporting of Misconduct</b> PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP
	<b>Confidentiality</b> PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter
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