



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
	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 rating reflects OLP's augmented market position and continuous support by ORIX (Japan). The Company's operations are supported by quality risk management framework and strong internal controls. The management, while exploring various options to garner future growth, continues to emphasize on improved spreads, increased geographical outreach and diversification into different businesses by utilizing the capital available to the Company by offloading under-performing investments. OLP earning assets book was largely maintained during FY17. Company maintains a fairly healthy funding structure, main source of funding remains bank borrowing and CoDs. OLP's capital structure benefited by the issuance of right shares during 1QFY18. The paradigm change would emerge as OLP will expand its operational horizon with a new license as Investment Finance Company.

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

Name of Rated Entity	ORIX Leasing Pakistan Limited
Type of Opinion	Entity
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation between long-term and short-term rating scale(2017-06-30), Methodology Criteria Modifiers(2017-06-30), Methodology Non-Banking Finance Companies(2017-01-31)
Related Research	Sector Study Modaraba & NBFCs(2017-03-15)
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ORIX LEASING PAKISTAN PROFILE	
Incorporated	1986
Major Business	leasing company
Legal Status	Listed
Head Office	Karachi
Branches	36 in 33 cities
Overseas Investments	Oman ORIX Leasing Company SAOG ORIX Leasing Egypt SAE Saudi ORIX Leasing Company Al Hail ORIX Finance Company

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> NBFCs include 8 Leasing Companies. Intense competition from established financial institutions (FIs) owing to small network and similar nature of products being offered by these FIs.

OWNERSHIP	STRONG
<ul style="list-style-type: none"> OLP's major shareholder is ORIX Corporation, (ORIX), having 49.6% shareholding. Arif Habib Limited has taken 8.7% shareholding in the Company. Other shareholders are State Life Insurance Corporation and Aberdeen Asian Smaller Companies Investment Trust, PLC. OLP holds 100% stake in ORIX Services Pakistan (Private) Limited and 20% stake in ORIX Modaraba which effectively gives OLP management control of the Modaraba. 	

GOVERNANCE	GOOD
<ul style="list-style-type: none"> The Board of Directors (BoD) comprises of nine members, including the Chief Executive Officer (CEO). It constitutes four nominees of ORIX and four independent directors and the CEO. Apart from CEO all are non-executive directors. During 2016 Mr. Khalid Aziz Mirza, ex-Chairman SECP, joined the board as Chairman. Two Board committees (Audit Committee and Human Resource Remuneration Committee); Internal Audit & Compliance Functions directly report to Audit Committee. 	

MANAGEMENT	STRONG
<ul style="list-style-type: none"> OLP has a well-defined organizational structure. Mr. Shaheen Amin assumed the role of CEO. He has been associated with the ORIX group since 1986. He has held various key positions in the group. Mr. Arshad Abbas was appointed as Deputy CEO in May-17. With clear job responsibilities, fourteen experienced professionals are heading key functions. Four management committees and a professional management team ensure operational efficacy. 	

SYSTEMS & CONTROLS	GOOD
<ul style="list-style-type: none"> In-depth credit evaluation and effective monitoring of the risk management processes. All critical policies are well-defined and approved by the Board. Procedures have been clearly defined to ensure effective implementation of the policies. Comprehensive MIS reports are generated through the lease management system containing key business indicators including volumes, borrowing rates, margins, overdue and financial statements. OLP has in-house I.T. application software that caters to the needs of all areas of business. 	

PERFORMANCE	GOOD
<ul style="list-style-type: none"> During FY17, OLP's earning assets were largely maintained on YOY basis. The Company's net interest revenue (NIR) increased from PKR 1,304mln to PKR 1,446mln. While finance income slightly increased, the significant benefit to NIR come from reduction in mark-up expense. Non-markup expenses primarily personnel expenses increased on YOY basis. The bottom line was positively supported by higher other operating income and a reversal of provision on account of recoveries in non-performing loans (NPLs). Last year there was one-off bargain purchase gain on the acquisition of Standard Chartered Leasing and Standard Chartered Modaraba (PKR 205mln). PBT of PKR 1.1bln was reported for FY17 (FY16: 977mln) – highest in the Company's history. During 1QFY18 OLP maintained its performance trend largely by posting a pre provisioning profit of (1QFY18: PKR 237mln; 1QFY17: PKR 265mln). Going forward, OLP intends to capitalize on its strong financial position by diversifying into related businesses. The paradigm change would emerge as OLP will expand its operational horizon with a new license as an Investment Finance Company. 	

FINANCIAL RISK	GOOD
<ul style="list-style-type: none"> OLP's main source of funding remains bank borrowing and CoDs. OLP maintains a fairly healthy funding structure leveraging stands at ~72% end-Sep17 (FY17: 82%). The share of CoDs witnessed a decline of 38% in FY17 (increase of FY16: 40%). Top 20 concentration in CoDs remained adequate (1QFY18: 27%; FY17: 26%). OLP's capital structure benefited by the issuance of right shares. In 1QFY18, OLP issued 57.1mln right shares at premium of 250%. This benefited OLP's capital adequacy (Equity to Total Assets 1QFY18: 18.9%; FY17: 12.9%; FY16: 11.8%). Total Debt/ Equity stands at (1QFY18: 2.6x; FY17: 4.3x; FY16: 5.6x). 	



Financials (Summary)

The Pakistan Credit Rating Agency Limited

Orix Leasing Pakistan Limited

BALANCE SHEET	30-Sep-17	30-Jun-17	30-Jun-16	PKR mln 30-Jun-15
	3M	FY17	FY16	FY15
Assets				
Loans & Finances	3,843.6	3,660.8	3,279.9	2,580.8
Net Investment in Finance Lease	25,996.8	25,223.9	25,324.5	20,102.6
Operating Lease Assets	920.9	975.8	1,166.1	1,369.7
TFCs	-	-	(0.0)	11.0
Investments	3,523.5	3,562.7	4,254.6	3,285.7
Other Assets	973.6	1,153.4	1,308.2	967.9
Non-Performing Finances	1,316.8	1,302.6	1,325.6	1,108.5
Less: Accumulated provision (specific/prudential)	(1,316.8)	(1,302.6)	(1,325.6)	(1,108.5)
Total Assets	35,258	34,577	35,333	28,318
Liabilities				
Certificates of Investment	5,778.8	6,027.9	9,764.0	6,983.3
Security Deposits	-	-	-	-
Borrowings	11,845.8	13,343.0	11,016.0	9,297.1
Other Liabilities	10,976.7	10,739.2	10,376.7	8,488.2
Equity				
Total Equity	6,657.1	4,466.4	4,176.7	3,549.0
TOTAL LIABILITIES & EQUITY	35,258	34,577	35,333	28,318
INCOME STATEMENT				
Net Interest Revenue	421.5	1,446.0	1,304.0	1,273.5
Other Income	64.4	367.5	470.5	310.7
Operating Expenses	(248.4)	(966.3)	(856.5)	(831.9)
Pre-Provision Operating Profit	237.4	847.2	917.9	752.3
(Provision)/Reversals	(11.4)	81.7	(175.4)	(167.6)
Share of Profit of Associates	47.1	229.1	234.2	275.1
Taxes	(79.0)	(316.8)	(216.7)	(189.0)
(Loss) / Profit after taxation from discontinued operations	(0.2)	(0.2)	(13.0)	(0.1)
Net Income	194	841	747	671
Ratio Analysis				
Cost-to-Total Net Revenue	51.1%	53.2%	54.9%	53.2%
Borrowings/ (Borrowings + Deposits)	67.2%	68.9%	53.0%	57.1%
Total Debt / Equity (times)	2.6	4.3	5.0	4.6
Equity / Total Assets	18.9%	12.9%	11.8%	12.5%
Impaired Lending / Gross Finances	4.1%	4.2%	4.3%	4.4%
Loan Loss Provisions / Impaired Lending	100.0%	100.0%	100.0%	100.0%

Orix Leasing Pakistan Limited

Feb-18

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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
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	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. B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. C: An inadequate capacity to ensure timely repayment.
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.	

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

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Name of Rated Entity
Sector
Type of Relationship

Orix Leasing Pakistan Limited
Leasing
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
12-Feb-18	AA+	A1+	Stable	Maintain
23-Jun-17	AA+	A1+	Stable	Maintain
30-Dec-16	AA+	A1+	Stable	Maintain
14-Jan-16	AA+	A1+	Stable	RW (Developing)
09-Sep-15	AA+	A1+	Stable	RW (Developing)
15-Jan-15	AA+	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology
Sector Research

Bank Rating Methodology
Modaraba & NBCs Sector Study - Viewpoint | Mar17

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[Rating Team Statement](#)

Rating Procedure

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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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

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[Probability of Default \(PD\)](#)

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