

RATINGS (DECEMBER 2011)

ORIX LEASING PAKISTAN LIMITED (OLP)

	NEW	PREVIOUS
ENTITY		
Long Term	AA	AA
Short Term	A1+	A1+
SECURED TFCs (AMOUNT IN PKR MLN)		
TFC-I	2,500	AA+
PPTFC-II	5,000	AA+
TFC-III	1,000	AA+



FINANCIAL DATA (PKR in million)

	Sep-11*	Jun-11	Jun-10
Total Assets	21,329	21,802	23,779
Equity	2,333	2,247	2,016
Net Income	38	145	105
ROE %	6.6	6.8	5.1
ROA %	0.7	0.6	0.4
Equity/Total Assets (%)	10.9	10.3	8.5

* un-audited financial statements for 1QFY12

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TFC ISSUES

ORIX Leasing has three outstanding secured TFCs - two listed and one privately placed. Listed TFC of PKR 2,500mln was issued in May07 for a tenor of 5 years, at the rate of 6-months KIBOR plus 150bps, payable semi-annually. The principal redemption, in six equal semi-annual installments (PKR 417mln each), begun in Nov09. The privately placed TFC of PKR 5,000mln was issued in Jan08 at a profit rate of 6-months KIBOR plus 120bps for a tenor of 5 years, payable in six equal semi-annual installments (PKR 833mln each). The redemption of TFC-II started in Jul10. Recently, the company has issued another listed TFC of PKR 1,000mln at a profit rate of 3-months KIBOR plus 215bps for a tenor of 3 years, payable quarterly in arrears. The principal redemption (PKR 100mln each) would commence from Mar12. All TFC issues are secured by first charge on specific leased assets and associated receivables.

RATING RATIONALE AND KEY DRIVERS

- The ratings of OLP reflect its established business profile emanating from its leading position in leasing industry, well-rooted penetration into target market, diverse product portfolio, and good management quality. The ratings recognize management's initiative interalia, strengthening the role of risk management in underwriting new business, controlling cost structure, and improving profitability. However, impaired portfolio, though reducing, remains a cause of concern. Meanwhile, criticality of keeping funding mismatch low and high leveraging may constrain its financial profile. Cognizant of the company's need and subdued economic environment, the management is following a cautious growth strategy with an emphasis on improving its core margins. Nevertheless, the ratings draw comfort from historically demonstrated commitment of ORIX Corporation, Japan towards its operations in Pakistan.
- The ratings are dependent on the company's ability to sustain its market position while improving its overall business profile. Any significant erosion in its capitalization, either by deterioration in asset quality or through business losses may impact the ratings. Also continuous support from the parent remains important.

ASSESSMENT

- The leasing sector continues to face multifaceted challenges since last few years. Performance of the companies operating in the sector has remained under pressure. While most of the companies, in line with changing economic fundamentals, focused on portfolio consolidation, asset quality remained a cause of concern. Meanwhile, their limited ability to mobilize low cost funds further exacerbated pressure on margins, in turn, profitability. These pressures have led to near-closure of a number of entities in non-banking leasing sector with only limited active players left.
- OLP maintained its focus on consolidation of its asset base during FY11. The overall disbursements were largely maintained (FY11: PKR 8,057mln; FY10: 8,427mln), with a change in mix towards commercial vehicle lease that grew by 8%. The core margins (RoA: 1QFY12: 0.7%; FY11: 0.6%; FY10: 0.4%; RoE: 1QFY12: 6.6%; FY11: 6.8%; FY10: 5.1%) remain low, though gradually increasing. The company managed to reduce its interest cost owing to retirement of certain portion of borrowings post divestment of stake in Saudi ORIX Leasing Company (SOLC). This benefited the company to improve its spreads (1QFY12: 5.9%; FY11: 6.4%; FY10:4.2%). The administrative expenses were controlled which, coupled with lower provisioning expense, strengthened bottom-line profitability.
- OLP would continue to follow its conservative growth stance. The company would build its finance lease book while gradually enhancing its operating lease, a high margin business segment. OLP's overseas associates are expected to continue to support its bottom-line, though the company's share of profit in associated concerns has squeezed owing to disinvestment of key cash producing investment in SOLC. Nevertheless, OLP, though expected to face challenges, is likely to sustain its market position, while strengthening its overall business operations.
- The impaired lending as a percentage of gross finances declined marginally (1QFY12: 10.7%; FY11: 10.1%, FY10: 10.7%) as the company is actively pursuing for recoveries from non-performing portfolio. This, along with further provisioning has led to improvement in net impaired lending as a percentage of equity (FY11: 37%; FY10: 60%). The company has taken various initiatives to strengthen the role of risk management, particularly in the area of credit risk. Nevertheless, it would require continuous attention.
- The investment portfolio of OLP as a percentage of total assets has declined (1QFY2: 8.8%; FY11: 8.2%; FY10: 11%) post divestment of SOLC. Nonetheless, the portfolio continue to be dominated by equity investments in associated companies, followed by government securities, and other investments particularly in mutual funds.
- The overall funding structure remains titled towards institutional borrowings with proportion of certificate of deposits (CoDs) slightly increasing to 16% in FY11. (14% at end Jun-10). The concentration in top 20 CoDs remains high (FY11: 43%; FY10: 47%). Meanwhile, the three outstanding TFCs issued by the company comprise 35% of total debt of the company. Company's liquid assets as percentage of total debt remain low (1QFY12: 7.7%; FY11: 5.8%; FY10: 10.0%).
- In line with its business model and to fulfil its growth objectives, the company traditionally has maintained high leverage structure. However, OLP's leveraging, though still high relative to its peers, has lately declined (Total Debt/ Equity: 1QFY12: 5.3x; FY11: 5.8x; FY10: 7.3x). In this regard, the company's ability to sustain current level of leveraging, while pursuing its growth targets remains to be seen. Going forward, further improvement in core performance of the company remains important for augmentation of OLP's risk absorption capacity.

PROFILE

- ORIX Leasing Pakistan Limited (OLP), the largest leasing company in the country, commenced operations in 1986. It has a network of more than 30 offices across Pakistan. OLP's major shareholder, ORIX Corporation, Japan (ORIX), having just below 50% shareholding continues to exercise control through the Board of Directors (BoD). ORIX, rated A3 by Moody's, has a consolidated asset base of over US\$ 107bln as at Sep-11 from operations in 27 countries and regions.
- Experienced professionals with majority representation of ORIX's employees dominate the Board. Mr. Teizoon Kisat, a Chartered Accountant by profession, elevated to the position of CEO lately, has been associated with the company for last twelve years. A team of seasoned professionals assists him.