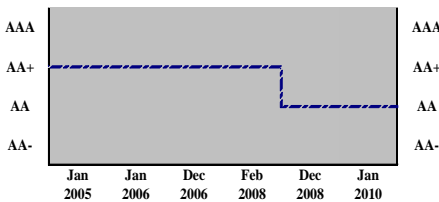


RATINGS (JANUARY 2010)

ORIX LEASING PAKISTAN LIMITED (OLP)

	New	Previous
Entity		
Long-Term	AA	AA
Short-Term	A1+	A1+
TFC Secured, listed (PKR 2,500mln)	AA+	AA+

LONG TERM ENTITY RATING HISTORY



FINANCIAL DATA

PKR (mln)

	1QFY10	FY09	FY08
Total Assets	26,420	27,323	27,815
Equity	2,140	2,078	2,604
Net Income	(50)	(467)	267
ROA %	(0.18)	(1.65)	0.97
ROE %	(8.32)	(19.95)	10.70
Equity/Total Assets %	8.10	7.60	9.36

ANALYSTS

Muhammad Qasim Raza
+92 42 35869504
qasim.raza@pacra.com

Aisha Yasin
+92 42 35869504
aishayasin@pacra.com

TFC

The company issued a listed, secured TFC of PKR 2,500mln in May, 2007. The issue has a tenor of 5 years, carrying profit at the rate of 6-months KIBOR plus 150bps, without any floor and cap, payable semi-annually. The principal redemption is in six equal semi-annual installments (PKR 417mln) beginning 30th month after issuance (i.e. Nov09). The second payment is due in May10. The issue is secured by way of registered charge over specific leased assets and associated lease receivables with a 25% margin.

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings recognize OLP’s sustained position as a market leader, the stability and expertise of its management, and strong association with ORIX Corporation, Japan. The squeezed spreads and subdued socio-economic environment are likely to have pressure on the company’s performance prospects. However, it is expected that the company will be able to revert to profitability with the help of its diversified product portfolio. Although increasing NPLs have strained the company’s financial profile alongside high leveraging, the ratings draw comfort from historically demonstrated commitment from ORIX Corporation, Japan towards its operations in Pakistan.
- OLP’s ratings are dependent on the company’s ability to curtail further erosion in asset quality while reducing leveraging from its current high level. Moreover, timely materialization of its business strategy to achieve profitability would remain critical.

ASSESSMENT

- Leasing sector witnessed multifaceted challenges in FY09. High inflation, slowdown in GDP growth and deteriorating law and order situation reduced the repayment capacity of borrowers thereby resulting in weakened asset quality for the sector. In addition, competition with commercial banks with respect to fund mobilization further exacerbated the business risk for the entire leasing sector.
- During FY09, OLP experienced a squeeze in its total asset base as lease disbursements reduced significantly given the socio-economic challenges and liquidity constraints in the financial industry. Vehicle leasing (62%) continued to dominate the asset mix followed by plant & machinery (38%). Spreads remained on the lower side and higher provisioning acted as a drag on the bottom line. However, the increased contribution of the share of profits of associates provided some support. The trend has started to reverse and improvement has been witnessed in the overall performance during 1QFY10 attributable to the liquidity ease out and cut in discount rates. It is expected that OLP will be able to achieve profitability by end-3QFY10.
- Asset quality was adversely affected during the year. The impaired lending as a percentage of gross finances increased (FY09: 7.67, FY08: 3.99) on account of the worsening credit environment. Also, the net impaired lending as a percentage of equity (1QFY10: 39.9%, FY09: 56.17%; FY08: 26.82%) remained on the higher side. Nevertheless, while regularly reviewing its risk management framework, the company is taking various measures such as effective monitoring of watch-list accounts and stringent procedures in order to improve recoveries of bad loans. Also the company is diversifying its customer base in commercial vehicles as well as in the corporate lease portfolio in order to mitigate concentration risk. However, further deterioration in asset quality can impact profitability going forward.
- Given the subdued socio-economic conditions, the management plans to follow a cautious growth stance with increased focus on its core business activities. Since commercial banks have stopped offering auto finance to their customers, OLP has improved prospects in its traditional business area. Moreover, OLP is one of the very few institutions providing medium term financing to small and medium enterprises, therefore, having improved chances to sustain its market share. Furthermore, OLP intends to develop and manage residential and commercial real estate through its investment in ORIX Properties Pakistan Limited (OPPL) and it is expected that operations will begin by end-2010. Meanwhile, OLP formed a new investment banking division to cater to activities related to its merger with ORIX Investment Bank.
- OLP has a sizeable equity investment in associate companies (65% of the total investments), followed by liquid government securities (23%) along with other investments particularly mutual funds (12%). OLP remained exposed to interest rate risk with major portion of its borrowings and leases at fixed rate (58% of the total lease portfolio) as against floating rate. However, with greater emphasis on floating rate leases and the recent cuts in discount rate, it is expected that the management will be able to reduce interest rate exposure.
- The overall funding mix of OLP has largely remained the same during FY09. The funding constitutes borrowing from financial institutions and capital market (66%), lease security deposits (27%) and certificates of investments (COIs) from individuals and corporates (7%).
- The company witnessed its first loss since inception in FY09 (PKR 467mln). The loss led to significant erosion of equity resulting in increased leverage. Currently, the leveraging of OLP, though within the prescribed regulatory limits, is on the higher side. The need to reduce leveraging would be important since it has restricted OLP’s ability to capitalize on future growth activities.

PROFILE

- ORIX Leasing Pakistan Limited (OLP), the largest leasing company in the country, commenced operations in 1987. It has a network of 40 offices in 32 cities. OLP’s major shareholder, ORIX Corporation, Japan (ORIX), rated A3 by Moody’s, having just below 50% shareholding continues to exercise control through the Board of Directors (BoD). ORIX, with a consolidated asset base of over US\$ 87bln as at Mar-09, has operations in 26 countries and regions.
- Experienced professionals with majority representation of ORIX’s employees dominate the Board. Mr. Humayun Murad, a Chartered Accountant, is the CEO of the company. A team of experienced professionals, proactive in identifying and tapping new avenues, assists him.