

RATINGS (MAY 2011)

ORIX LEASING PAKISTAN LIMITED (OLP)

| | NEW | PREVIOUS |
|---------------|------|----------|
| ENTITY | | |
| Long Term | AA | AA |
| Short Term | A1+ | A1+ |
| TFCs | | |
| PKR 2,500mln | AA+ | AA+ |
| PKR 5,000mln | AA+ | AA+ |
| PKR 2,000mln | AA+* | - |

* Preliminary

FINANCIAL DATA

(PKR in million)

| | Mar-11* | Jun-10 | Jun-09 |
|-------------------------|----------|----------|----------|
| Total Assets | 22,409.5 | 23,779.0 | 27,323.2 |
| Equity | 2,171.2 | 2,016.4 | 2,078.0 |
| Net Income | 101.5 | 104.5 | (467.1) |
| ROE % | 6.4 | 5.1 | -19.9 |
| ROA % | 0.6 | 0.4 | -1.7 |
| Equity/Total Assets (%) | 9.7 | 8.5 | 7.6 |

* Based on financial statements for nine months ended March 31, 2011.

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EXISTING TFC ISSUES

■ The company issued a listed, secured TFC of PKR 2,500mln in May07 for a tenor of 5 years, at the rate of 6-months KIBOR *plus* 150bps, payable semi-annually. The principal redemption is in six equal semi-annual installments (PKR 417mln) and has begun in Nov09.

■ OLP issued a privately placed, secured TFC of PKR 5,000mln 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. The first payment (PKR 833mln) was made in Jul10.

PROPOSED TFC ISSUE

■ The company is in process of issuing a third listed and secured TFC of PKR 1,000mln with a green shoe option of PKR 1,000mln at a profit rate of 3-months KIBOR *plus* 215bps for a tenor of 3 years, payable quarterly in arrears, commencing from the 9th month of the issue date.

■ All the existing and proposed TFC issues are secured by first charge on specific leased assets and associated receivables. Owing to strong security structure, the rating of TFCs is assigned one notch higher than long-term entity rating.

RATING RATIONALE AND KEY DRIVERS

- The preliminary rating of the proposed TFC issue reflects OLP's strong association with ORIX Corporation, Japan, a diversified financial services group operating world-wide. OLP maintains robust business profile emanating from its leading position in leasing industry, established brand, diverse product portfolio, and sound management quality. Although the uptick in profitability is expected to lend support to financial profile, it remains constrained due to relatively high leveraging and impaired lending. Cognizant of the company's risk profile and depressed economic environment, the management is following a cautious growth strategy with an emphasis on improving its core margins. The rating of the proposed TFC issue draws comfort from its strong security structure against specific performing leased assets.
- The ratings are dependent on the company's ability to sustain its market position while improving its overall financial profile. Meanwhile, in the absence of parent support, any significant erosion in its capitalization, either by deterioration in asset quality or through business losses may negatively impact the ratings.

ASSESSMENT

- Non-banking leasing sector witnessed multifaceted challenges in recent years. Performance of the companies operating in the sector 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, following a cautious growth strategy during FY10, rationalized its total assets while consolidating its lease portfolio. At the same time, the company rejuvenated its liability side, as reliance on bank borrowings slightly reduced. Though the company's overall performance during FY10 remained under pressure, one-time gain on sale of one of its group investments along with a sizeable increase in income from its associated concerns supported the bottom-line.
- During 3QFY11, the company largely sustained its disbursements at last year's level. The company focused on economizing its borrowing by enhanced reliance on low cost certificates of deposits (CoD), thereby increasing CoDs contribution in total funding (9MFY11: 12.5%, FY10: 9.8%, FY09: 7.4%). This resulted into lower average cost of funds on YoY basis. At the same time, fresh cash inflow from sale of investment during FY10 positively contributed to the spreads. Meanwhile, controlled administrative expenses on account of rationalization of branch network coupled with lower provisioning expense further strengthened bottom-line profitability.
- Going forward, 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 oversees associates are expected to continue to support its bottom-line, though the company's share of profit in associated concerns would squeeze owing to its disinvestment of majority holding in Saudi ORIX Leasing Company (SOLC) last year. Nevertheless, OLP, though expected to face immense challenge, is likely to sustain its market position, while strengthening its overall business operations.
- The impaired lending as a percentage of gross finances declined marginally (3QFY11: 10.35%, FY10: 10.83%) as the company continued to focus on recoveries from non-performing portfolio. This, along with further provisioning led to improvement in net impaired lending as a percentage of equity (3QFY11: 44%; FY09: 59%).
- During FY10, the investment portfolio of OLP as a percentage of total assets declined owing to disposal of majority of its stake in SOLC. The company realized about PKR 926mln from this divestment. Nonetheless, the investments continue to be dominated by equity investments in associated companies, followed by government securities, and other investments particularly in mutual funds.
- OLP has a leveraged capital structure, though largely in line with the company's business model. Recent restructuring in balance sheet coupled with inflow of funds on account of divestment of SOLC positively impacted the capital structure. However, the company, to fulfil its growth objectives, intends to raise funds through fresh TFCs issue. This is expected to result in increased leveraging from current level. Meanwhile, the company's liquidity position remains secured in the back of asset liability maturity matching.

PROFILE

- ORIX Leasing Pakistan Limited (OLP), the largest leasing company in the country, commenced operations in 1987. It has a network of 33 offices in 23 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\$ 103bln as at Mar-11, has operations in 26 countries and regions..
- Experienced professionals with majority representation of ORIX's employees dominate the Board. Mr. Teizoon Kisat, a Chartered Accountant by profession, is the CEO of the company. A team of experienced professionals assists him.