



## ORIX LEASING PAKISTAN LIMITED (OLP)

## RATINGS (DECEMBER 2006)

## ORIX LEASING PAKISTAN LIMITED

	NEW	PREVIOUS
<b>ENTITY RATINGS</b>		
Long Term	AA+	AA+
Short Term	A1+	A1+

## TFCs – SECURED

Proposed Issue (PKR 2,500mln)	AA+	-
----------------------------------	-----	---

## FINANCIAL DATA

PKR (mln)

	30-Jun-06	30-Jun-05
Total Assets	23,746.0	17,599.0
Equity	2,334.5	2,004.5
Net Income	396.3	321.3
ROA %	1.9	2.1
ROE %	18.3	16.7
Equity/ Total Assets %	9.8	11.4

## ANALYSTS

Talal Naeem  
+92 42 5869504  
talal@pacra.com

Shahzad Saleem  
+92 42 5869504  
shahzad@pacra.com

## PROFILE

- ORIX Leasing Pakistan Limited (OLP), the largest leasing company in the country, commenced operations in 1987. The company's geographical coverage has been steadily increasing over the years, currently comprising 31 offices in 26 cities. OLP has invested in the five leasing joint-ventures of ORIX within the MENA and central Asian regions, and an investment bank in Pakistan, with participation in management of the investee companies.
- OLP's major shareholder, ORIX – which carries an international long term rating of A- by S&P and Baa1 by Moody's – provides technical support and policy guidelines. ORIX pioneered lease financing in Japan, and the company now delivers a wide range of financial services. ORIX, with a consolidated asset base of over US\$ 65bln as at September 30, 2006, has operations in 24 countries and regions.

## RATING RATIONALE

## ASSESSMENT

- The ratings reflect OLP's low-risk asset profile and sustained market leadership in an increasingly competitive operating environment. The company has an outstanding management team with a demonstrated track record of proactively realigning its strategies with the changing business dynamics. Although OLP's interest spreads are under pressure, the company has managed the impact on its profitability through volume expansion, while maintaining its cautious approach towards risk. The ratings also recognize the implicit support of ORIX Corporation, Japan as a key factor.
- OLP is pursuing an aggressive growth strategy since the beginning of FY05, as reflected in over 30% expansion in leases during the same year, followed by a similar growth rate again in FY06. However, the volume expansion could not fully absorb the impact of squeezing spreads and the company's net interest revenue was low in FY06 on YoY basis. The spreads are under pressure because of a) increasing competition mainly from commercial banks, and b) higher interest rates resulting in substantial increase in the company's cost of borrowings mainly based on floating structure, as against a major portion of leases locked at fixed rates. However, the impact of low interest income on the bottom line was masked down by slightly higher other income, low level of provisions, and stricter control over operating expenditure, which despite substantial growth in the business volume increased modestly.
- The company is benefiting from the improving performance of its various associates, the impact of which, subsequent to adoption of equity method of accounting for investments in associates, is now fully reflected in the profitability of OLP in proportion of its shareholding in such associates. All these associates have passed their gestation phase and are profitable, though the level of profitability varies. Going forward, OLP is expected to increasingly benefit from its strategic investments.
- Taking cognizance of the rising interest rates, the company, for most of its large new leases, is following floating interest rate structure that is expected to help in spread management. However, in its dealing with individuals and SME segment, the company has found floating rate structure detrimental to business growth and plans to continue offering fixed rate structure with an option to renegotiate in case of any adverse development. Moreover, given the current relative stability in the interest rate environment, the company is better positioned to manage the interest rate risk. Furthermore, as a cost rationalization measure, the company is curtailing leases below PKR 200,000. In line with its business focus, the company has added a number of small industrial and agricultural cities to its network and intends to maintain the growth momentum on the back of enhanced geographical presence. The bulk of the disbursements are targeted within the corporate lease segment comprising leases of industrial machinery, equipment and commercial and passenger vehicles to corporate customers, followed by auto leases to individuals. The company intends to gradually expand agriculture and micro finance through dedicated branches, albeit the contribution towards the total loan book would remain nominal. Meanwhile, a modest, but growing, operating lease segment continues to augment the revenues.
- Careful selection and effective monitoring of the financing portfolio has allowed the company to keep the incidence of non-performing loans at a low level. The lease portfolio while being sectorally well diversified is also free from customer concentration and, with maintained focus on vehicles, is perceived to have a low risk profile.
- Given OLP's aggressive growth pattern, there is a continued increase in the gearing level – currently around 7 times. The management envisages a continuation of the leveraged expansion policy to facilitate maximum exploitation of the company's growth potential. Nevertheless, the increased gearing levels are expected to remain well within the specified regulatory ceilings. The company has a diversified funding mix, including borrowings from multilateral agencies and local banks and COIs issued to corporates and individuals. This, while providing flexibility to manage its cost of funds, helps OLP in effective management of asset liability maturity structure.

## SUPPORT

- ORIX Corporation, Japan (ORIX), with just below 50% equity stake in OLP, continues to exercise control through the BOD. While there is no contractual obligation on the part of ORIX to support OLP in the event of a contingency, in PACRA's opinion, such support is likely to be forthcoming, if it proves necessary.

## TFCs

- OLP has fully redeemed its outstanding TFCs issue of PKR 747mln in July 2006. The company is currently in the process of issuing another listed, secured TFC of PKR 2,500mln. The issue will have 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 will be in six equal semi-annual installments beginning 30<sup>th</sup> month after issuance. OLP will have early repayment option exercisable fully or partially at any redemption date after 1 year of issuance at a 30days notice and without any premium. The issue will be secured by way of registered charge over specific leased assets and associated lease receivables with a 25% security margin.