



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### Orient Rental Modaraba

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Oct-2022	A-	A2	Stable	Maintain	-
04-Nov-2021	A-	A2	Stable	Maintain	-
04-Nov-2020	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Orient Rental Modaraba (ORM or the Modaraba) is a multi-purpose perpetual Modaraba, having focal operations in two segments; Ijarah Rental (Genset Rental) and Operations & Maintenance (O&M) agreements. The Modaraba enjoys patronage from its sponsors (ASJN Group), with additional benefits gained through its complementary business nature. The presence of key Group Management Personnel in the Modaraba boosted ORM's operational efficiency, consequently, enduring economic instability caused by the political instability. The economy gained momentum in the aftermath, in turn, translating into a performance boost for the Modaraba. Ijarah rentals remained the dominant revenue source, capturing a major share in the textile sector. Additionally, stable returns generated from O&M arrangements placed further comfort on the top line. The rating takes comfort from the experienced management and stable performance of the Modaraba. There are plans to further augment the O&M revenue stream as the demand mix tilts towards the latter. The Modaraba has been profitable on account of the high utilization of the rental fleet, due to the increasing demand for power generation equipment offered. The financial strength of the company remains adequate. The Modaraba intends to keep leveraging in the manageable and optimal range of debt-to-equity ratio with minimal reliance on Diminishing Musharakah Financing. Going forward, the Modaraba intends to maintain optimal capacity utilization and further augment its control and governance environment.

The ratings are dependent on the relative positioning of the Modaraba in the sector and sustained asset quality: sustaining bottom-line profitability is important. The ratings also depend upon keeping its financial profile intact. Any significant change in its risk profile may adversely impact the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Orient Rental Modaraba
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22),Methodology   Non-Banking Finance Companies Rating(Jun-22)
<b>Related Research</b>	Sector Study   Modaraba & NBFCs(Apr-22)
<b>Rating Analysts</b>	Muhammad Noor Ul Haq   noorulhaq@pacra.com   +92-42-35869504

## Profile

**Structure** Orient Rental Modaraba is a Non-Banking Islamic Financial Institution and is listed on Pakistan Stock Exchange, with a trading symbol of “ORM”.

**Background** Orient Rental Modaraba is a multi-purpose and perpetual Modaraba formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed thereunder and is managed by Eman Management (Private) Limited (the Modaraba Management Company).

**Operations** The Modaraba commenced its operations with effect from Nov 24, 2017, and is engaged initially in providing equipment rental solutions, operations and maintenance services. The renting of equipment is on ijara mode for a tenor ranging from one hour to a day, weeks, months and years. The equipment selected for rental includes a fleet of Power Generation Equipment, Material Handling Equipment and Constructions Machinery. In addition, the Modaraba is also engaged in providing Operation and Maintenance (O&M) services to customers who own the equipment and require O&M service providers for maintenance.

## Ownership

**Ownership Structure** Structure Eman Management (Private) Limited is the management company, holds 10% ownership stake in the Modaraba, which is also the minimum regulatory requirement. Sponsor hold 67% and the remaining certificate holding of the Modaraba is dispersed amongst the corporates, individuals and others.

**Stability** The sponsoring company, Orient Group is well entrenched in the engineering and power sector. The Modaraba has three related companies named Orient Energy System (Private) Limited, Orient Energy Dubai and Orient Oils (Private) Limited.

**Business Acumen** Orient Group, established in 1996, is one of Pakistan’s leading names in the engineering and power sector. The Sponsor has more than three decades of industry experience and stand to provide the specific knowledge to establish a formidable position in the sector.

**Financial Strength** All of the Orient Group companies are engaged in a wide range of engineering services. The holding company has provided assistance to support Modaraba for smooth operations and shell continue to support it as implicit guarantee is provided against liabilities.

## Governance

**Board Structure** The overall control of the Modaraba vests in the six-member Board of Directors (BoD) including the CEO. Except for the CEO, all board members are non-executive including two independent directors. The BoD comprises professionals having vast experience in Engineering and Banking sectors.

**Members’ Profile** The Chairman, Mr. Chaudhry Jawaid Iqbal is an Associate Member of the Institute of the Motor Industry, U.K. and has an extensive experience of more than 30 years working with engineering and power sector companies.

**Board Effectiveness** The board has three committees namely i) Audit Committee ii) Human Resource and Remuneration Committee and iii) Risk Management Committee. Audit and HR & Remuneration Committee are chaired by an independent director i.e., Mr. Joozer Jiwa Khan, whereas the Risk Management Committee is chaired by an independent director Ms. Saba Ahmed Agrawalla. The Meeting Minutes of the Committees are well-documented.

**Financial Transparency** M/s. BDO Ebrahim & Co. Chartered Accountants having satisfactory QCR ratings are the external auditor of the Modaraba. During Jun21, the firm expressed an unqualified opinion pertaining to annual financial statements.

## Management

**Organizational Structure** The Modaraba has a lean organizational structure. ORM is managed by a team of seasoned professionals who are associated with the Modaraba since its inception.

**Management Team** The CEO, Mr. Teizoon Kisat is a Fellow Member of the Institute Chartered Accountants of Pakistan since 1986. He possesses a strong leadership record and has a deep understanding of the business and financial sector of the country. Mr. Kisat was associated with auditing firms in Pakistan and Overseas for 12 years.

**Effectiveness** Operations are divided into ten functional departments: 1) Human Resources, 2) Information Technology, 3) Finance, 4) Administration directly reporting to the CEO, 5) Internal Audit – directly reporting to the Board Audit Committee and the rest of the departments namely, 6) Procurement 7) Operations & Maintenance 8) Logistics 9) Power Systems and 10) Sales, reports directly to Director Rental and Operations.

**MIS** The Modaraba has completed the development of its in-house ERP-based management information system which has been implemented for efficient and timely reporting. The system provides optimal solutions for efficient monitoring of customer proposals, approval processes and execution of facility as well.

**Risk Management Framework** The Modaraba manages and monitors risk exposure in a prudent manner. Risk is managed through monitoring and controlling activities which are primarily set up to be performed, based on limits established by the Modaraba Management Company.

## Business Risk

**Industry Dynamics** The NBFI sector comprises a total number of 39 companies. Under the sector, there are a total of 27 Modaraba Companies 4 of which are Nonfinancial Modarabas and the remaining 23 comes under the umbrella of Financial Modaraba. The Modaraba sector showed a remarkable performance for FY22 against the previous years. All segments of the power rental performed very well owing to SMEs and MSMEs growth during FY22. The withdrawal of tax exemption on income of the Modaraba sector would reduce the profitability of the modaraba sector. However, it will support them to strengthen their equity base, going forward.

**Relative Position** Modaraba has a market share of ~4.7% based on the total assets of Modaraba Company in the industry and ~4.4% on the basis of the Total Equity. Despite increased challenges for businesses, political uncertainty and several other economic issues including a highly competitive market and intense competition with market players, the Modaraba has made a satisfactory performance.

**Revenues** Modaraba capitalized on its traditional revenue lines to generate 16.3% positive growth in Revenues, compared to its peer period. During FY21, Modaraba earned revenue of PKR 1,351mln on the back of its power generation equipment and O&M business whereas in the previous year the revenues were of PKR 1,161mln. Revenue for 9MFY22 stood at PKR 1,231mln against PKR 995mln for 9MFY21. The company’s Gross Profits also increased to PKR 337mln from PKR 216mln for periods FY21 and FY20 respectively (9MFY22: PKR 320mln, 9MFY21: PKR 219mln).

**Performance** Stability continues to be depicted in the financial performance of the Company. Further, as per the recent regulation change, the Company has charged tax expenses of PKR 28mln in the recent period, leading to a profit after tax of PKR 156mln for the period ended FY21. For FY20 Company reported a PAT of 30mln. PAT for 9MFY22 stood at PKR 121mln whereas for 9MFY21 Company had a PAT of PKR 90mln.

**Sustainability** Going forward, the Modaraba intends to continue with its conservative growth stance. While targeting quality customers, Modaraba plans to manage risks while strengthening its risk management framework.

## Financial Risk

**Credit Risk** The Modaraba is carrying significant risks in terms of default in rental payments by the lessee and other risks such as non-possession of the leased asset, misuse or abuse by the lessee, accidents, theft, and breakdown. The Modaraba manages its credit risk through a comprehensive credit policy.

**Market Risk** Modaraba focuses primarily on core business activities and has no exposure to equity/debt investment. The Modaraba primarily invests in assets used for the Ijarah business. Consequently, Modaraba’s exposure to market risk is minimum to none.

**Liquidity And Funding** The main source of funding of the Modaraba is Diminishing Musharaka. During FY21, the borrowings to Funding ratio raised to 99.8% from 91.5% in FY20. For 9MFY22 ratio stood at 96.3%. (liquid assets-to total debts: 9MFY22: 21.3%. (FY21:23.2%; FY20: 3.7%).

**Capitalization** The Modaraba capital structure shows an inclination towards leveraging as evidenced by the equity-to-total-asset ratio of 47.9% during 9MFY22 (FY21:46.8%; FY20: 49.4%). The Modaraba’s substantial growth in asset base would have to be financed through either fresh equity injection or borrowed funds. ROE for FY21 increased substantially 17.4% from 3.6% for FY20. ROE for 9MFY22 stood at 16.3%.



**Orient Rental Modaraba**  
**Listed Public Limited**

*PKR mln*

**Mar-22**

**Jun-21**

**Jun-20**

**Jun-19**

**9M**

**12M**

**12M**

**12M**

**A BALANCE SHEET**

1 Total Finance-net	1,627	1,599	1,296	1,280
2 Investments	-	-	-	-
3 Other Earning Assets	110	161	14	35
4 Non-Earning Assets	377	307	330	264
5 Non-Performing Finances-net	10	8	38	28
<b>Total Assets</b>	<b>2,123</b>	<b>2,075</b>	<b>1,677</b>	<b>1,607</b>
6 Funding	530	715	507	451
7 Other Liabilities	576	389	342	284
<b>Total Liabilities</b>	<b>1,106</b>	<b>1,105</b>	<b>849</b>	<b>735</b>
<b>Equity</b>	<b>1,017</b>	<b>971</b>	<b>828</b>	<b>872</b>

**B INCOME STATEMENT**

1 Mark Up Earned	812	860	711	844
2 Mark Up Expensed	(49)	(63)	(69)	(49)
3 Non Mark Up Income	425	479	414	433
<b>Total Income</b>	<b>1,188</b>	<b>1,277</b>	<b>1,056</b>	<b>1,228</b>
4 Non-Mark Up Expenses	(979)	(1,096)	(1,015)	(1,100)
5 Provisions/Write offs/Reversals	(1)	4	(11)	(25)
<b>Pre-Tax Profit</b>	<b>207</b>	<b>185</b>	<b>30</b>	<b>103</b>
6 Taxes	(86)	(29)	-	-
<b>Profit After Tax</b>	<b>121</b>	<b>156</b>	<b>30</b>	<b>103</b>

**C RATIO ANALYSIS**

**1 PERFORMANCE**

a Non-Mark Up Expenses / Total Income	82.4%	85.8%	96.1%	89.6%
b ROE	16.3%	17.4%	3.6%	11.8%

**2 CREDIT RISK**

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	317.0%	232.1%	274.1%	300.2%
b Accumulated Provisions / Non-Performing Advances	81.7%	86.2%	60.4%	62.2%

**3 FUNDING & LIQUIDITY**

a Liquid Assets / Funding	21.3%	23.2%	3.7%	8.6%
b Borrowings from Banks and Other Financial Institutions / Funding	96.3%	99.8%	97.2%	100.0%

**4 MARKET RISK**

a Investments / Equity	0.0%	0.0%	0.0%	0.0%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%	0.0%

**5 CAPITALIZATION**

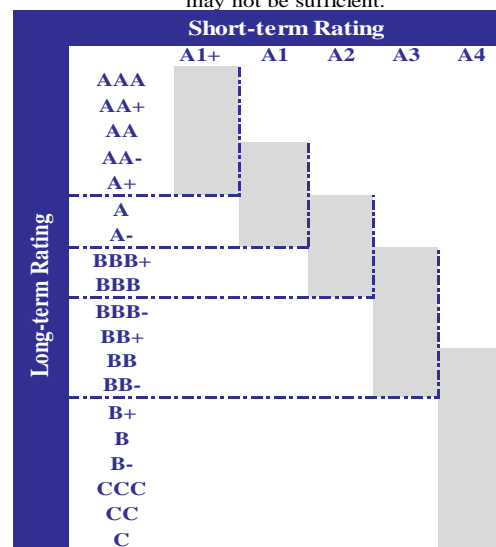
a Equity / Total Assets (D+E+F)	47.9%	46.8%	49.4%	54.3%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	16.7%	18.9%	3.5%	N/A

### Credit Rating

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 Rating	
Scale	Definition
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
<b>AA+</b>	
<b>AA</b>	<b>Very high credit quality.</b> 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.
<b>AA-</b>	
<b>A+</b>	
<b>A</b>	<b>High credit quality.</b> 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.
<b>A-</b>	
<b>BBB+</b>	
<b>BBB</b>	<b>Good credit quality.</b> 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.
<b>BBB-</b>	
<b>BB+</b>	
<b>BB</b>	<b>Moderate risk.</b> 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>BB-</b>	
<b>B+</b>	
<b>B</b>	<b>High credit risk.</b> 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.
<b>B-</b>	
<b>CCC</b>	
<b>CC</b>	<b>Very high credit risk.</b> 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.
<b>C</b>	
<b>D</b>	Obligations are currently in default.

Short-term Rating	
Scale	Definition
<b>A1+</b>	The highest capacity for timely repayment.
<b>A1</b>	A strong capacity for timely repayment.
<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>A4</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

#### Entities

- Broker Entity Rating
- Corporate Rating
- Financial Institution Rating
- Holding Company Rating
- Independent Power Producer Rating
- Microfinance Institution Rating
- Non-Banking Finance Companies (NBFCs) Rating

#### Instruments

- Basel III Compliant Debt Instrument Rating
- Debt Instrument Rating
- Sukuk Rating

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

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- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

### **Monitoring and review**

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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