



The Pakistan Credit Rating Agency Limited

Rating Report

ORIX Modaraba

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Aug-2019	AA	A1+	Stable	Maintain	-
26-Feb-2019	AA	A1+	Stable	Maintain	-
05-Nov-2018	AA	A1+	Stable	Maintain	-
19-Apr-2018	AA	A1+	Stable	Maintain	-
02-Aug-2017	AA	A1+	Stable	Maintain	-
14-Jan-2017	AA	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

ORIX Modaraba (ORIXM) enjoys sound financial profile emanating from leveraging, managed liquidity, and sustained profitability. Moreover, good management quality, strong risk management systems and control environment provide strength to ORIXM's profile. The management's business strategy envisages volumetric growth in assets, albeit a bit slow due to the ongoing strained economic environment and rising interest rate scenario, to improve its performance trends. With this, the dip in profitability is planned to be recovered. The expected growth would be funded through mix of internal sources and debt. However, the management expects to maintain the leveraging pattern at a comfortable level. The Modaraba's affiliation with ORIX Leasing Pakistan Limited helps in further strengthening the risk management, providing established outreach and experience of parent, particularly in SME segment, which the management of Modaraba has identified as key growth driver.

The ratings are dependent on the management's ability to sustain its strong financial profile while ensuring stable profitability. Deterioration in respective business size and consequent margins, leading to erosion of profitability, and/or coverages will have negative impact on the ratings.

Disclosure

Name of Rated Entity	ORIX Modaraba
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_NBFC_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Modaraba & NBFCs(Mar-19)
Rating Analysts	Muhammad Noor ul Haq muhammad.noorulhaq@pacra.com +92-42-35869504

**Profile**

Structure ORIX Modaraba (herein referred to as "ORIXM" or "the Modaraba") is an Islamic Financial Institution listed on the Pakistan Stock Exchange.

Background ORIXM, incorporated in 1987, is managed by ORIX Services Pakistan (Private) Limited which is 100% owned by ORIX Leasing Pakistan Limited, a subsidiary of ORIX Corporation, Japan. ORIX Corp. has set up a number of specialized leasing companies providing a wide range of innovative financial products and services to clients in Japan and 38 different countries/ regions across the world.

Operations The Modaraba is primarily engaged in financing of plant, machinery, vehicles and housing finance under Islamic finance structures and operates from offices in Karachi, Lahore and Islamabad.

Ownership

Ownership Structure ORIXM is managed by ORIX Services Pakistan (Private) Limited which owns 10% certificates capital in ORIXM. ORIX Leasing Pakistan Limited (OLP) holds another 10% direct stake in ORIXM, making effective shareholding of OLP 20%. The rest 80% is held by the general public.

Stability ORIXM performs succession planning session after every three years and identify successors for all critical roles. In this way it provides continuity to leadership and avoids extended and costly vacancies for key position. Successors which are identified in the session is equipped with all necessary trainings and assignments to enable him/ her to take over the role.

Business Acumen ORIX Corp. was set up in Japan in 1964 as a leasing company. The scope of ORIX Corp's business today has widened considerably from the starting point of leasing, to include lending, investment, life insurance, banking, asset management, automobile, real estate, and environment and energy-related business.

Financial Strength ORIX Leasing Pakistan, management company, is owned by ORIX Corporation (49.6%). ORIX Corp., listed on the Tokyo and New York Stock Exchanges, is one of Japan's leading integrated financial services groups with operations spanning over 38 countries and regions around the globe. The group has experience of 54 years of operations and has a total asset base of US\$ ~116 bln and equity of US\$ ~27 bln as at Mar 31, 2019.

Governance

Board Structure BoD comprises six members including the CEO, out of which one is independent and three are non-executive directors. The Modaraba has appointed Ms. Maryam Aziz as director to fill the casual vacancy, however approval from SECP is yet to come.

Members' Profile Mr. Shaheen Amin, Chairman, with an MBA degree from University of Chicago and MS in Risk management from New York University, has been associated with Orix Leasing Pakistan since 1986. He is accompanied with other board members which are thorough professionals and carry experiences of managing business affairs in different sectors.

Board Effectiveness Two sub committees on the Board exist; (i) Audit Committee & (ii) HR & Remuneration Committee. Attendance recorded during the board and its sub-committees' meetings was good and minutes of the meetings have been extensively documented.

Financial Transparency The financial statements of ORIXM for FY18 have been audited without any qualification by M/s KPMG Taseer Hadi & Co., Chartered Accountants. Furthermore, the Board has set up an effective internal audit function that reports independently to the Audit Committee regularly on compliance with critical policies and procedures and recommends on amendments to these policies in line with the industry best practices.

Management

Organizational Structure ORIXM has a well-defined organizational structure. Authorities and responsibilities are clearly and completely defined and it is ensured that the policies and procedures are understood throughout the organization.

Management Team CEO, Mr. Raheel Qamar Ahmad, an MBA degree from IIT, Chicago, possesses over 25 years of varied corporate and investment banking experience. In his last three roles, he ran the country local corporate portfolio at Standard Chartered Bank and large regional corporate portfolios at United Bank Limited and Allied Bank. He is also the Chairman of the NBFI and Modaraba Association of Pakistan and the Vice president of the Asian Financial Services Association. He is accompanied with a team of experienced management professionals.

Effectiveness There are four committees at the management level, i) Management Committee (MANCOM), ii) Asset and Liability Committee (ALCO), iii) Country's Operational Risk Committee (CORC) and iv) IT Steering Committee (ITSC). All the management committees are chaired by the CEO and include senior staff members that bring their vast experience in making strategies, business planning and in operations.

MIS Furthermore, the company has implemented a number of policies and procedures, such as IT Security Policy and Business Continuity & and Disaster Recovery Plan, in order to mitigate the risks associated with the increasing use of information technology.

Risk Management Framework ORIXM manages and monitors risk exposure very prudently. Only PKR ~137 mln of assets financing was impaired in thirty one years of operations which represents 0.32% of the total disbursements since inception. ORIXM carries out extensive Credit & Due Diligence (decision making related) reviews both at the time of booking a new client and at every annual review of all relationships.

Business Risk

Industry Dynamics Due to reduction in industry spreads and adverse economic indicators in recent period, the scenario has turned to a gloomy outlook. Considering present economic situation, it is expected that business activities during the current year will slightly remain under pressure as the political uncertainty took its toll on overall business sentiments.

Relative Position ORIXM is ranked in top 5 modarabas on the Asset or Profitability base. Modaraba's performance during the year continued to be very strong, in spite of stiff competition with Islamic banks, as it booked fresh disbursements to the tune of PKR 2.1bln during 9MFY19.

Revenues ORIXM's gross revenue net of amortization of Ijarah assets increased by 47% YoY from PKR 346 mln to PKR 509 mln. This was achieved mainly due to increase in discount rate and better mix of portfolio alignment. ORIXM's gross earning yield declined owing to increase in cost of funds (9MFY19: 8.5%; FY18: 5.8%) on account of rising interest rates.

Performance During 9MFY19, net income increased 12% from PKR 66 mln to PKR 74 mln. Administrative and operational expenses increased by 10% mainly due to cost associated with the process alignment for compliance of new regulations.

Sustainability While remaining cautious and prudent during the prevailing economic uncertainty, Modaraba's strategy is geared towards generating growth over the next few years. The cornerstones of strategy include (i) Expanding the DM portfolio, (ii) Stable and constant growth of the housing finance product and (iii) New business with High Net Worth customers.

Financial Risk

Credit Risk During 9MFY19, ORIXM's financing book comprised Ijarah (Mar19: 58%; Jun18: 61%) and Diminishing Musharaka (Mar19: 42%; Jun18: 39%). ORIXM's Ijarah portfolio consists of two equally distributed segments: (i) plant, machinery & equipment and (ii) vehicles. During the period under review Modaraba booked fresh disbursements of PKR 2.1 bln.

Market Risk Modaraba focuses primarily on core financing business and has no exposure to equity/debt investment. Consequently ORIXM is not exposed to market risk. Moreover, ALCO and group treasury use different parameters to monitor market risk performance of ORIXM's funding base.

Liquidity And Funding ORIXM's funding mix comprises of two main sources: (i) Certificates of Musharaka (60%), and (ii) Musharika (40%). Its exposure to interest rate risk is limited, given its Ijarah and Musharika financing portfolio is linked with floating rates. During the period, ORIXM's liquidity profile deteriorated (liquid assets to total debts: 9MFY19: 7.7%; FY18: 8.6%).

Capitalization ORIXM has a leveraged financial profile (equity to total assets ratio: 9MFY19: 15%; FY18: 17%). Despite the slight dip in profits, the dividend outflow has remained the same at ~77% (Jun18: 78%).

The Pakistan Credit Rating Agency Limited
Orix Modaraba

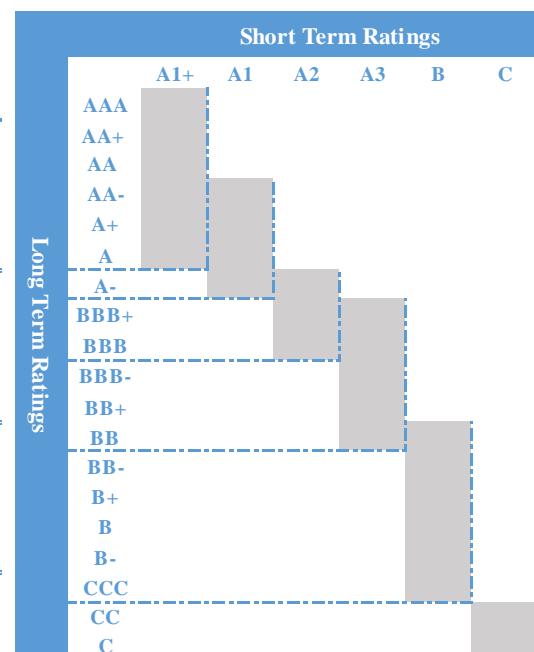
	Financials (Summary)			
	PKR Mln			
BALANCE SHEET	31-Mar-19 9MFY19	30-Jun-18 Annual	30-Jun-17 Annual	30-Jun-16 Annual
Finances				
a) Musharika Financing	2,772	2,494	998	1,199
b) Investment in Ijarah Finance	3,763	3,833	4,451	3,638
Deposits with banks	368	386	367	217
Other Non Earning Assets	272	240	146	223
Non-Performing Finances	83	93	93	98
Less: Provision for Doubtful Receivables	(83)	(93)	(93)	(98)
Net Non-Performing Finances	-	-	-	-
Total Assets	7,174	6,953	5,962	5,278
Funding				
a) Certificates of Musharika	2,904	3,127	2,751	2,794
b) Morabaha Financing	-	-	-	-
c) Musharika Financing	1,948	1,636	947	328
d) Lease Rentals received in Advance	834	763	870	712
Other Liabilities	379	279	244	267
Total Equity	1,109	1,148	1,150	1,176
TOTAL LIABILITIES & EQUITY	7,174	6,953	5,962	5,278
INCOME STATEMENT				
Gross Revenue	474	431	400	468
Financial Charges	(316)	(246)	(204)	(223)
Other Income	36	90	58	27
Operating Expense	(115)	(144)	(124)	(113)
Pre-provision Profit	79	132	130	160
Provision for doubtful Receivables	4	2	12	33
Management Fee	(9)	(14)	(14)	(20)
Net Income	74	120	128	173
RATIO ANALYSIS				
Profitability Ratios				
ROA	1.4% *	1.9%	2.3%	3.3%
Cost-to-Total Net Revenue	59.2%	52.2%	48.9%	41.4%
Capital Adequacy				
Equity / Total Assets	15.5%	16.5%	19.3%	22.3%
Funding & Liquidity				
Short Term Funding/Total Funding	68.1%	70.8%	79.8%	73.3%
Loan Loss Coverage				
Impaired Lending/Gross Finances	1.3%	1.5%	1.7%	2.0%
Net Impaired Lending/Total Equity	7.5%	8.1%	8.1%	8.4%
Intermediation Efficiency				
Spread	0.6% *	1.1%	1.2%	2.4%

**annualized*
Orix Modaraba
Aug-19

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+ The highest capacity for timely repayment.
AA+	Very high credit quality. 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.	A1 A strong capacity for timely repayment.
AA		A2 A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3 An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+	High credit quality. 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 The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C An inadequate capacity to ensure timely repayment.
A-		
BBB+	Good credit quality. 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.	
BBB		
BBB-		
BB+	Moderate risk. 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.	
BB		
BB-		
B+	High credit risk. 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-		
CCC	Very high credit risk. 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.	
CC		
C		
D	Obligations are currently in default.	



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) 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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(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)

2) Conflict of Interest

- 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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (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.
- (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 principle 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)

Independence & Conflict of interest

- (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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