



The Pakistan Credit Rating Agency Limited

Rating Report

Orient Rental Modaraba

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Oct-2023	A-	A2	Stable	Maintain	-
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 ('the Modaraba') enjoys association with Orient Energy Systems (Pvt.) Ltd. through Eman Management (Pvt.) Ltd. - the Modaraba management company - reaping benefits of complementary business. The Modaraba is multi-purpose and perpetual. The Modaraba mainly generates revenue from Ijarah Rentals (Genset - operating on diesel and gas), mainly emanating from the textile and real estate sectors, followed by support from Operations & Maintenance (O&M) agreements, mainly trickling from the tobacco sector. The Modaraba also provides facility services. Topline and in turn profits posts stability; however, remains lean. Despite low in quantum, high gas prices impact gas genset deployment. However, diesel based gensets are fully deployed. Going forward, the management plans to enhance the customer base of the O&M segment and facility services to support the Modaraba's performance. Financial risk of the Modaraba remains adequate supported by manageable leveraging with minimal reliance on Diminishing Musharakah facility. Sustained capacity utilization and strengthening the governance framework remains crucial for ratings.

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

Name of Rated Entity	Orient Rental Modaraba
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Non-Banking Finance Companies Rating(Jun-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Modaraba & NBFCs(Apr-23)
Rating Analysts	Nabia Rauf nabia.rauf@pacra.com +92-42-35869504

Profile

Structure Orient Rental Modaraba ('the Modaraba') is a Non-Banking Financial Institution and is listed on Pakistan Stock Exchange.

Background The Modaraba is associated with Orient Energy Systems (Pvt.) Ltd. ('Orient Energy') that provides engineering, power generation and industrial solutions. The Modaraba is registered under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The Modaraba structurally operates through Eman Management Company (Pvt.) Ltd. ('the management company') and was formed by spinning off two of the core divisions, generator rental and operation & maintenance of Orient Energy.

Operations The Modaraba is multi-purpose and perpetual and commenced operations in Nov-17. The Modaraba provides generator/ equipment rental solutions, operations and maintenance services. The renting of equipment is on Ijarah mode and the equipment includes fleet of Power Generation Equipment, Material Handling Equipment and Constructions Machinery. In addition, the Modaraba is also engaged in providing Operation and Maintenance services to various customers.

Ownership

Ownership Structure The Modaraba is ~25% owned by its Directors. While, the Associated Companies hold ~16.7% stake, Financial Institutions hold ~8.9% stake and others hold ~2.2% stake of the Modaraba. General public holds ~47.2% stake of the Modaraba.

Stability The ownership of the Modaraba seems stable as the sponsoring company, Orient Group is well entrenched in the engineering and power sector of the Country.

Business Acumen Orient Energy has substantial penetration in the engineering and power sector and has more than three decades of industry experience.

Financial Strength Orient Energy, having sound financial footing, offers diverse engineering services and support to the Modaraba.

Governance

Board Structure The overall control lies with the six-members Board of Directors. The BoD comprises two Independent Directors, three Non Executive and one Executive Director.

Members' Profile The BoDs Chairman, Mr. Ch. Jawaid Iqbal holds an experience of more than four decades in engineering and power sector. Mr. Jawaid is associated with the Company since inception. All other members of the BoD carry diversified professional experience.

Board Effectiveness During FY23, the BoD met four times. The BoD is aided by three committees: Audit, Human Resource and Remuneration (HR &R) and Risk Management Committees. These are chaired by Independent Directors; while the attendance of the meetings remain optimal and minutes are adequately maintained.

Financial Transparency The Modaraba's external auditors, M/S. Yousuf Adil Chartered Accountants, has issued an unqualified report pertaining to the financial statements as of FY23. Formerly, M/S. BDO Ebrahim & Co., Chartered Accountants was the external auditor of the Modaraba. Both firms are on SBP's panel in category "A".

Management

Organizational Structure The Modaraba is managed through ten departments: HR, IT, Finance, Administration, Internal Audit, Procurement, Operations & Maintenance, Logistics, Power Systems and Sales. Each department's Head reports to the CEO, who then reports to the BoD. However, the Head of Internal Audit and HR&R reports functionally to the respective BoD committees and administratively to the CEO.

Management Team Mr. Teizoon Kisat serves as the CEO and holds four decades of experience. He is associated with the Modaraba since Sep-20. Ms. Effat Assad is the CFO since Jul-21 and holds more than three decades of experience. The Modaraba has an experienced management team.

Effectiveness The operations of the Modaraba are managed by each functional department reporting directly to the CEO. However, room for improvement exists as the presence of management committees will help to monitor effective running of the operations.

MIS The Modaraba has 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 prudently manages and monitors risk exposure by implementing activities within the established limits set by the Modaraba Management Company.

Business Risk

Industry Dynamics The business environment in the country remained challenging, and measures taken by the Government toward economic stabilization have impacted overall business sentiments. Due to adverse economic indicators in recent periods, the scenario has turned into a gloomy outlook. The transportation sector has also been under strain and disbursements in the vehicle business was conservatively reduced, however gradual revival of the sector seems imminent. The cost of business has risen and NBFCs continue to face stiff competition from banks

Relative Position The Modaraba has a market share of ~3.3% based on the total assets in the industry and ~6.9% on the basis of the total equity.

Revenues During FY23, the Modaraba recorded total revenue of ~PKR 1.7bln (FY22: ~PKR 1.6bln) showing an overall increase of ~6%. Revenue from Ijarah rentals remained stagnant and stood at ~PKR 1bln. However, the increase is mainly due to revenue from Operation and Maintenance (FY23: ~PKR 682mln, FY22: ~PKR 601mln). During 9MFY23, the Modaraba followed the similar trend and earned revenue of ~PKR 1.3bln (9MFY22: ~PKR 1.2bln). Ijarah rentals remained stagnant at ~PKR 801mln. Operation and Maintenance earned (9MFY23: ~PKR 503mln , 9MFY22: ~PKR 424mln) showing an overall increase of ~6% due to increased number of contracts.

Performance During FY23, gross profit stood at ~PKR 488mln (FY22: ~PKR 439mln) showing a slight increase due to increased revenue. New borrowings and higher interest rates due to rise in policy rates led to increased finance cost (FY23: ~PKR 92mln, FY22: ~PKR 65mln). Profit after tax showed an increase and stood at ~PKR 187mln (FY22: ~PKR 170mln). During 9MFY23, gross profit remained stable and stood at ~PKR 320mln due to stagnant operating expenses whereas, the finance cost grew in proportion (9MFY23: ~PKR 58mln, 9MFY22: ~PKR 48mln). During 9MFY23, the Modaraba has charged slightly less tax expenses of ~PKR 78mln (9MFY22: ~PKR 85mln), leading to ~6.6% increased profit after tax of ~PKR 129mln (9MFY22: ~PKR 121mln).

Sustainability In future, the Modaraba aims to maintain conservative growth prioritizing quality customers to streamline 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 by the lessee, accidents, theft, and breakdown. The Modaraba manages its credit risk through a comprehensive credit policy.

Market Risk The 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, the Modaraba's exposure to market risk is negligible.

Liquidity And Funding As of FY23, total funding increased (FY23: ~PKR 596mln, FY22: ~PKR 447mln) which deteriorated the borrowing-to-funding ratio ~85.3% (FY22: ~96.4%). Liquid assets to funding stood at ~17.8% (~FY22: ~16.7%) due to increased liquid assets (FY23: ~PKR 106mln, FY22: ~PKR 75mln). As at 9MFY23, the Modaraba followed the similar trend and the borrowing to funding ratio raised to ~99.1% (9MFY22: ~96.3%). Liquid assets to funding stood at ~21.6% (9MFY22: ~21.3%) due to increase in liquid assets (9MFY23: ~PKR 119mln, 9MFY22: ~PKR 74mln).

Capitalization As of FY23, debt-to-equity ratio stood at 0.5x (FY22: 0.4x) due to increased equity (FY23: ~PKR 1.3bln, FY22: ~PKR 1.0bln). Capital Adequacy Ratio(CAR) stood at 57.4% due to increased total assets (FY23: ~PKR 2.2bln, FY22: 2.1bln). The capital structure of the Modaraba shows an inclination towards leveraging as evidenced by the increased equity-to-total-asset ratio of ~56% as of 9MFY23 (9MFY22: ~51.9%). Similarly the CAR stood at ~56% (9MFY22: ~51.9%) due to increased equity (9MFY23: ~PKR 1,195mln, 9MFY22: ~PKR 1,066mln); whereas debt to equity ratio of the Modaraba remained stagnant (0.5x).



PKR mln

Orient Rental Modaraba
Public Listed

Jun-23 **Jun-22** **Jun-21**
12M **12M** **12M**

A BALANCE SHEET

1 Total Finance-net	1,545	1,635	1,599
2 Investments	140	-	-
3 Other Earning Assets	100	71	161
4 Non-Earning Assets	429	343	307
5 Non-Performing Finances-net	(30)	2	8
Total Assets	2,184	2,052	2,075
6 Funding	596	447	715
7 Other Liabilities	335	539	389
Total Liabilities	931	986	1,105
Equity	1,253	1,066	971

B INCOME STATEMENT

1 Mark Up Earned	1,089	1,095	860
2 Mark Up Expensed	(92)	(65)	(63)
3 Non Mark Up Income	698	608	479
Total Income	1,695	1,638	1,277
4 Non-Mark Up Expenses	(1,383)	(1,344)	(1,096)
5 Provisions/Write offs/Reversals	(23)	(13)	4
Pre-Tax Profit	288	281	185
6 Taxes	(101)	(111)	(29)
Profit After Tax	188	170	156

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	81.6%	82.1%	85.8%
b ROE	16.2%	16.7%	17.4%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	259.1%	370.8%	232.1%
b Accumulated Provisions / Non-Performing Advances	N/A	93.0%	86.2%

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	17.8%	16.7%	23.2%
b Borrowings from Banks and Other Financial Institutions / Funding	85.3%	96.4%	99.8%

4 MARKET RISK

a Investments / Equity	11.2%	0.0%	0.0%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%

5 CAPITALIZATION

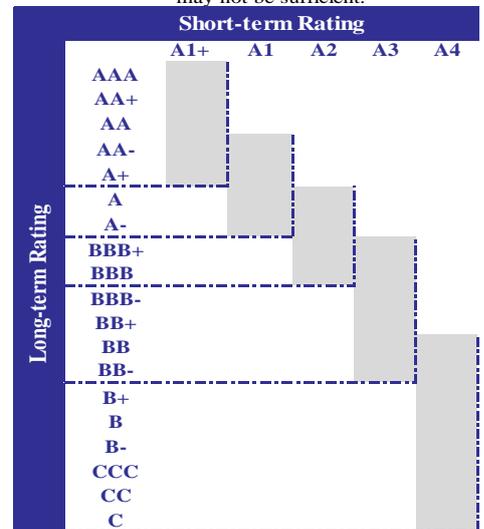
a Equity / Total Assets (D+E+F)	57.4%	51.9%	46.8%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	17.6%	9.8%	17.3%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
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.
AA-	
A+	
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.
A-	
BBB+	
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-	
BB+	
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-	
B+	
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-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	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):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies 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)

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

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(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)

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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).

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(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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