



## 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
04-Nov-2020	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Orient Rental Modaraba (ORM), a subsidiary of ASJN Holding (Pvt) Ltd, is primarily engaged in rental and operation and maintenance of Gensets. The company enjoys patronage from established sponsor i.e. Orient Energy System. Operating with two revenue streams; Rental and, Operation and Maintenance (O&M), major chunk of revenue is derived from Ijarah Rentals, though the fee from O&M is fast increasing and has a higher share in the total profit. There are plans to further augment O&M revenue stream as the demand mix tilts towards the later. The modaraba has been profitable on account of high utilization of rental fleet due to increasing demand for power generation equipment offered; mainly in manufacturing and textile sectors. Financial strength of the company remains adequate. The Modaraba intends to keep leveraging in the manageable range, not more than debt equity of 40:60, with zero reliance on COMs. The Rating incorporates strong business acumen comprising five experienced professionals though improvement in governance structure and corporate governance practices are essential. The induction and engagement of Group CEO is expected to supplement the strategic direction and capability of the Modaraba. Going forward, the Modaraba intends to maintain optimal capacity utilization.

The ratings are dependent on 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   NBFC(Jun-20),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria   Ratings Transition(Jun-20)
<b>Related Research</b>	Sector Study   Modaraba & NBFCs(Apr-20)
<b>Rating Analysts</b>	Rohail Amjad   rohail.amjad@pacra.com   +92-42-35869504

## Profile

**Structure** Orient Rental Modaraba is a Non-Banking Islamic Financial Institution and is listed on Pakistan Stock Exchange.

**Background** Orient Group started its journey in 1996 with an aim to provide seamless support to their customers in the area of power generation. The notion behind the flotation of Orient Rental Modaraba - a multipurpose and perpetual modaraba - is to deliver a Shari'ah-compliant business model that offers riba free income to investors and is managed by Eman Management (Private) Limited.

**Operations** The Modaraba commenced its operations with effect from Nov 24, 2017 and is engaged initially in providing equipment rental solutions, operation and maintenance services. The equipment selected for Ijara rental includes fleet of Power Generation Equipment, Material Handling Equipment and Construction Machinery. The registered office is situated in Karachi. The Modaraba also maintains sub-office at Lahore,

## Ownership

**Ownership Structure** Eman Management (Private) Limited is the management company, holds ~10% ownership stake in the Modaraba which is also the minimum regulatory requirement. Sponsors hold 67% and the remaining certificate holding is dispersed amongst the corporates, individuals and others. The sponsorship of the Orient Group is held by the four seasoned professional.

**Stability** The sponsoring company, is well entrenched in the engineering and power sector. Orient Energy Systems - the parent company has an official distribution and business alliance of Gas and Diesel Gen Set with reputed international firms like: Jenbacher Austria, Cummins USA and Waukesha USA, providing international expertise and exposure to operate efficiently as a leading power solution company in the country.

**Business Acumen** The sponsors has more than three decades of industry experience and stand to provide the specific knowledge to establish a formidable position in the sector. The sponsor's ability to take strategic decisions and seize opportunities on the right time has kept the Modaraba on the right track.

**Financial Strength** Orient Energy Systems- the parent company has an asset base of PKR 10bln and equity of PKR 3bln as at Jun-20. All of the Orient Group companies are engaged in a wide range of engineering services. Orient Energy has provided bank (performance) guarantee to Orix Leasing Pakistan Limited on behalf of Modaraba and 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 five-member Board of Directors (BoD) including the CEO. Except the CEO, all board members are non-executive including one independent director. The BoD comprises on professionals having vast experience of Engineering and Banking sector.

**Members' Profile** The Chairman, Mr Mohammad Saeed is a Bachelor of Engineering in Electrical from Sindh University Engineering College, Jamshoro with having more than three decade of professional experience with engineering and power sector companies. His abilities and expertise include entrepreneurship, leadership and product marketing.

**Board Effectiveness** The board has made two committees namely i) Audit and ii) Human Resource both are chaired by independent director i.e. Mr Joozer Jiwa Khan. Minutes of the meetings are extensively documented.

**Financial Transparency** BDO Ebrahim & Co. Chartered Accountants having satisfactory QCR ratings are the external auditor of the Modaraba. The firm expressed an unqualified opinion pertaining to annual financial statements for the year ended June 30, 2020.

## Management

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

**Management Team** The CEO, Mr Giassuddin Khan is an MBA from University of Hartford, Connecticut, USA and Bachelor of Engineering from NED University of Engineering & Technology having more than 25 years of working experience with Banks and Non-Banking Financial Institution in various management cadre.

**Effectiveness** Operations are divided into ten functional departments: 1) Human Resource, 2) Information Technology, 3) Administration 4) Finance directly report to CFO, 5) Internal Audit – directly report to Board Audit Committee. However, rest of the department namely 6) Power system, 7) Operation & Maintenance, 8) Construction Machinery, 9) Logistics and 10) Training & Development report to GMs of Rental and O&M.

**MIS** The Modaraba has ERP based management information system for efficient and timely reporting. This system will provide optimal solutions for efficient monitoring of customer proposal, approval processes and execution of facility as well.

**Risk Management Framework** Risk is managed through monitoring and controlling activities which are primarily setup to be performed, based on limits established by the Modaraba Management Company. The BoD of the Modaraba Management Company has established a risk management committee which is responsible for the establishment and oversight of the Modaraba's risk management framework.

## Business Risk

**Industry Dynamics** The business environment in the country remained challenging, measures taken by the Government towards economic stabilisation has impacted overall business sentiments. The slowdown in the economy has affected the overall demand. The cost of doing business has risen and Modarabas continued to face stiff competition from banks

**Relative Position** The Modaraba is classified as among the medium sized modarabas on the Assets and Equity base. Despite increased challenges for businesses amidst COVID-19 and intense competition with market players, the Modaraba has performed satisfactorily.

**Revenues** During FY20, the Modaraba has earned a revenue of PKR 1,163mln on the back of its power generation equipment and O&M business. The overall exposure remained concentrated towards Ijara rentals 62% (FY19: 66%) and O&M business 38% (FY19: 34%), which are moderately diversified through-out the country.

**Performance** During FY20, interest rate scenario affected the profitability, as financial charges of the Modaraba increased by 41% YoY having an impact on the Net Revenue of the Modaraba. Profit before tax for the year FY20 dropped by almost 70% (FY20: PKR 31mln, FY19: 103mln) on account of reduced revenue from Ijarah rentals.

**Sustainability** Going forward, the Modaraba intends to continue with its conservative growth stance. While targeting quality customers, the Modaraba plans to manage risks while strengthening its risk management framework. The Modaraba is keen to focus on its core activities and has plans to increase its existing asset base for generator rental business and committed to continue to make new investments in all sort of rental products by offering Ijara rental.

## Financial Risk

**Credit Risk** At end-Jun20, Modaraba's Ijara rental portfolio consists of gas & diesel gen sets only and the Ijara rental exposure remained concentrated towards Textile 28%, followed by wood processing 23%, Food and Beverages 13% and the rest of 36% with the others sectors. Modaraba maintained loan-loss coverage ratio at 62% and infection ratio stood at 4%.

**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 Ijarah business. Consequently, Modaraba's exposure towards market risk is minimum to none.

**Liquidity And Funding** The main source of funding of the Modaraba is diminishing musharaka. Its exposure to interest rate risk is limited, given its diminishing musharika financing is 1 year KIBOR + 1.5% per annum. During the FY20, with the dereriated bottom line, liquidity profile declined. (liquid assets-to total debts: FY20: 3.7%; FY19: 9%).

**Capitalization** Modaraba's capital structure shows an inclination towards leveraging as evident by equity-to-total-asset ratio of 49.4% during FY20 (FY19: 54%). The Modaraba's substantial growth in asset base would have to be financed through either fresh equity injection or borrowed funds.



The Pakistan Credit Rating Agency Limited

**ORIENT RENTAL MODARABA**

<b>BALANCE SHEET</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>
	<b>FY20</b>	<b>FY19</b>	<b>FY18</b>
<b>Assets</b>			
<b>Investments (Others)</b>	-	-	-
Equity	-	-	-
Debt	-	-	-
Finances	1,185	1,187	1,125
Other Earning Assets	14	35	45
Net Non-Performing Advances			-
Total Non-Earning Assets	478	385	292
<b>Total Assets</b>	<b>1,677</b>	<b>1,607</b>	<b>1,462</b>
<b>Liabilities</b>			
Musharaka Financing	493	451	460
Lease rentals received in advance	21	20	10
Other Liabilities	335	264	170
<b>Equity</b>			
Equity (including surplus on revaluation)	828	872	822
<b>Total Liabilities &amp; Equity</b>	<b>1,677</b>	<b>1,607</b>	<b>1,462</b>

**INCOME STATEMENT**

Net Revenue	965	1,049	567
Other Operating Income/Loss	-	-	-
Total Revenue	934	1,049	567
Administrative and General Expenses	(410)	(348)	(270)
Pre-provision Profit	58	155	115
Provisions	-	-	-
Pre-tax Profit	31	103	72
<b>Net Income</b>	<b>31</b>	<b>103</b>	<b>72</b>

**Ratio Analysis**

<b>Performance</b>			
ROA	1.9%	6.7%	4.9%
<b>Coverages</b>			
Liquid Assets / Total Funding	3.7%	8.6%	10.0%
<b>Loan Loss Coverage</b>			
Impaired Lending / Gross Finances	8%	7%	2%
Loan Loss Provisions / Impaired Lending	60%	62%	100%

\*Unaudited

**Orient Rental Modaraba**

**Nov-20**

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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.
BBB-	
BB+	<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.
BB	
BB-	
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-	
CCC	
CC	<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.
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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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

### **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 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)

### **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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