



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-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 COVID-19 pandemic. 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 major share in the textile sector. Additionally, stable returns generated from O&M arrangements placed further comfort to the topline. The rating takes comfort from the experienced management and stable performance of the Modaraba. There are plans to further augment O&M revenue stream as the demand mix tilts towards the latter. The Modaraba has been profitable on account of high utilization of rental fleet, due to increasing demand for power generation equipment offered. 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 minimal reliance on COMs. Going forward, the Modaraba intends to maintain optimal capacity utilization and further augments its control and governance environment.

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   Non-Banking Finance Companies Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Transition and Default(Jun-21)
<b>Related Research</b>	Sector Study   Modaraba & NBFCs(Apr-21)
<b>Rating Analysts</b>	Wajahat Arjumand Ansari   wajahat.ansari@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 multipurpose 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, operation and maintenance services. The renting of equipment is on Ijarah mode for tenor ranging from one hour to days, weeks, months and year(s). The equipment selected for rental includes fleet of Power Generation Equipment, Material Handling Equipment and Construction Machinery. In addition, the Modaraba is also engaged in providing Operation & Maintenance (O&M) services to customers who own the equipment and require O&M service providers for maintenance.

## 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. The sponsors (ASJN Group) hold core ownership of 50%, whereas the remaining stake of the Modaraba is dispersed amongst corporates, individuals and others.

**Stability** The sponsoring entity, Orient Group is well entrenched in the engineering and power sector. The Modaraba has three related companies named: Orient Energy Systems (Private) Limited, Orient Energy Systems FZCO and Orient Oils (Private) Limited. Orient group has an official distribution and business alliance of Gas and Diesel Genset with reputed international firms.

**Business Acumen** Orient Group, established in 1996, is one of Pakistan's leading names in the engineering & power sector. The sponsors have 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 shall continue to support it as implicit guarantee is provided against liabilities.

## Governance

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

**Members' Profile** The Chairman, Mr. Saeed is a Bachelor of Electrical Engineering from Mehran University of Engineering & Technology, Pakistan with more than three decades of professional experience with engineering and power sector companies. His abilities and expertise include entrepreneurship, leadership and product marketing.

**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 independent director i.e. Mr. Joozer Jiwa Khan, whereas protocols for the Risk Management Committee are under development. Meeting Minutes of Audit and HR & Remuneration Committee are well documented.

**Financial Transparency** BDO Ebrahim & Co. Chartered Accountants having satisfactory QCR ratings are the external auditor of the Modaraba. During Jun 21, the firm expressed an unqualified opinion pertaining to annual financial statements of Orient Rental Modaraba.

## 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 Chartered Accountant, and has been a member since 1986. He possesses a strong leadership record and has deep understanding of the business and financial sector of the country. Mr. Kisat was associated with auditing firms of Pakistan and Overseas for 12 years.

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

**MIS** The Modaraba is developing an in-house 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** The Modaraba manages and monitors risk exposure in a prudent manner. 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 Board of Directors of the Modaraba Management Company has overall responsibility for the establishment and oversight of the Modaraba's risk management framework.

## Business Risk

**Industry Dynamics** The private sector borrowing from banks increased by 34.0% during 9MFY21 indicating that, economic activities of this year are better than the pre-COVID period of FY20. The large-scale manufacturing (LSM) sector has also shown good growth during 9MFY21. However, worsening 3rd wave of Covid-19 pandemic and a spike in inflation rate, remained immediate challenge for the economy.

**Relative Position** The Modaraba is ranked in top 3 non-financial modarabas on the Assets and Equity base. Despite increased challenges for businesses, political uncertainty and several other economic issues, including highly competitive market and intense competition with market players, the Modaraba has made a satisfactory performance.

**Revenues** The Modaraba capitalized on their traditional revenue lines, generating 7.3% positive growth in Gross Revenues. During 9MFY21, the Modaraba earned gross revenue of PKR 998.1mln (9MFY20: PKR 930.0mln) on the back of its power generation equipment and O&M business.

**Performance** The financial performance of ORM showed progress, as the revenue boost gained further momentum through sustained financial costs and reduced Ujrah Payments, converging into a Net Revenue of PKR 843.3 mln (9MFY20: PKR 744.0mln). The achieved revenue portrays inclination of PKR 99mln on a YoY basis.

**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.

## Financial Risk

**Credit Risk** The Modaraba is carrying significant risks in terms of default in rental payments by lessee and other risks such as non-possession of leased asset, misuse or abuse by lessee, accidents, theft, and breakdown. The Modaraba manages its credit risk by 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 Ijarah business. Consequently, Modaraba's exposure towards market risk is minimum to none. This policy provides guidelines to be strictly followed in all major credit related decisions from initial evaluation to recovery from problem cases.

**Liquidity And Funding** The main source of funding of the Modaraba is diminishing musharaka. During the 9MFY21, with improved bottom line, the cash from operations increased to PKR 368.7mln (9MFY20: PKR 287.2mln) and liquidity profile was maintained (liquid assets-to total debts: 9MFY21: 25.3%; 9MFY20: 2.7%). A surge in the liquid assets to total debt ratio witnessed a boost due increase in deposit with banks.

**Capitalization** The Modaraba capital structure shows an inclination towards leveraging as evident by equity-to-total-asset ratio of 46.7% during 9MFY21 (9MFY20: 44.1%). 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-Mar-21</b>	<b>30-Jun-20</b>	<b>30-Jun-19</b>	<b>30-Jun-18</b>
	<b>9MFY21</b>	<b>FY20</b>	<b>FY19</b>	<b>FY18</b>
<b>Assets</b>				
<b>Investments (Others)</b>	-	-	-	-
Equity	-	-	-	-
Debt	-	-	-	-
Advances				
Finances	1,265	1,146	1,147	1,133
Other Earning Assets	159	14	35	45
Net Non-Performing Advances	53	48	28	-
Total Non-Earning Assets	513	518	426	285
<b>Total Assets</b>	<b>1,938</b>	<b>1,677</b>	<b>1,607</b>	<b>1,462</b>
<b>Liabilities</b>				
Musharaka Financing	642	493	451	460
Lease rentals received in advance	24.50	21	20	10
Other Liabilities	366	335	264	170
<b>Equity</b>				
Equity (including surplus on revaluation)	905	828	872	822
<b>Total Liabilities &amp; Equity</b>	<b>1,938</b>	<b>1,677</b>	<b>1,607</b>	<b>1,462</b>

**INCOME STATEMENT**

Net Revenue	843	965	1,049	567
Other Operating Income/Loss	-	-	-	-
Total Revenue	827	927	1,049	567
Administrative and General Expenses	(311)	(387)	(348)	(270)
Pre-provision Profit	110	46	143	104
Provisions	-	-	-	-
Pre-tax Profit	91	30	103	72
<b>Net Income</b>	<b>91</b>	<b>30</b>	<b>103</b>	<b>72</b>

**RATIO ANALYSIS**

<b>Performance</b>				
ROA	6%	2%	7%	5%
<b>Coverages</b>				
Liquid Assets / Total Funding	25%	4%	9%	10%
<b>Loan Loss Coverage</b>				
Impaired Lending / Gross Finances	4%	4%	7%	2%
Loan Loss Provisions / Impaired Lending	0%	0%	62%	100%

*\*Unaudited*

**Orient Rental Modaraba**

**Oct-21**

**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

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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)

### **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)

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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)

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- (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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