



The Pakistan Credit Rating Agency Limited

Rating Report

ORIX Leasing Pakistan Limited | PPTFC | TBI

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Dec-2021	AA+	-	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

Orix Leasing Pakistan Limited intends to issue secured, privately placed Term Finance Certificates ("PPTFC") of PKR 3bln (inclusive of PKR 1bln greenshoe option). This is being done with an aim of financing the business requirements of the Company. PPTFC is secured against specific charges on leased and financed assets and related receivables with an initial margin maintained at 25% that collectively covers value amounting to PKR 4bln (approx.). The ratings reflect OLP's leading market position in the industry. In the current economic conditions, the focus of the Company remained on risk management and risk diversification. Further, the Company utilizes its experience of the past thirty-five years to gauge the market situation and make the right decisions in the fast-changing environment. COVID-19 has raised multiple challenges for the corporate and financial sectors. While ramifications of the pandemic are still unfolding with multiple expected waves, the economic wheel has started rolling. This has been positively cushioned by steps taken by the regulatory and governing bodies. Under challenging conditions, OLP remained focused on maintaining the quality of its assets and exploring various options to maintain profitability, which was successfully achieved in the recently reported period. The economic revival with impetus on the construction sector along with the growth of the automobile sector bodes well for the company. The Company is committed to expanding its portfolio with extreme caution and maintaining a quality portfolio by mitigating respective risks.

The Company maintains a fairly healthy funding structure; the main source of funding remains bank borrowing and CoDs. The Company's ability to maintain its market position while generating sound profitability is due to a diverse customer base. The Company's rating also depends upon keeping its financial profile intact. Any significant change in its risk profile may adversely impact the ratings.

Disclosure	
Name of Rated Entity	ORIX Leasing Pakistan Limited PPTFC TBI
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Debt Instrument Rating(Jun-21),Methodology Non-Banking Finance Companies Rating(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Modaraba & NBFCs(Apr-21)
Rating Analysts	Hammad ul Hassan hammadul.hassan@pacra.com +92-42-35869504

Issuer Profile

Profile ORIX Leasing Pakistan Limited (OLP) commenced commercial operations in 1986 as a private limited Company and later converted into a public limited Company in 1987. OLP was established in 1986 as a joint venture between ORIX Corporation, Japan (ORIX Corp) and local investors. The blend of international experience and local expertise acquired over the last 35 years provides OLP a distinctive competitive edge. OLP provides a wide range of consumers in Pakistan with value-added financial products and innovative customized services. The Company employs a diversification approach to achieve business excellence by serving a countrywide customer base, which is mostly made up of SMEs and individuals.

Ownership OLP's major shareholder is ORIX Corporation, having 49.58% shareholding. Other shareholders are, Arif Habib Group (~7.53%) and State Life Insurance Corporation (~5.25%). Every year, a succession planning process is carried out to identify successors for all important roles. In this way it provides continuity to leadership and can avoid extended and costly vacancies for key position. ORIX Corp. was set up in Japan in 1964 as a leasing Company.

Governance The Board of Directors (BoD) comprises of nine members, including the Chief Executive Officer (CEO), three independent directors and four nominee directors of ORIX Corp. Mr. Khalid Aziz Mirza, Chairman of the BoD, has over 5 decades of experience. He has served as Chairman of SECP and Monopoly Control Authority. Currently, he is member of Policy Board of SECP and is also serving on the board of Awwal Mudaraba, Silk Bank and Muree Brewery Co. Ltd. He is accompanied by other board members who are thorough professionals and carry experiences of managing business affairs in different sectors. OLP has constituted four board committees to ensure rigorous monitoring of management's policies and Company's operations (Audit Committee, HR Committee, Risk Committee and Credit Committee). All committees are chaired by independent directors, except Credit Committee which is chaired by a nonexecutive director. The external auditors of the Company, A.F. Ferguson & Co, Chartered Accountants issued an unqualified audit opinion pertaining to annual financial statements for FY21. Furthermore, the Board has set up effective internal audit and compliance functions which report independently to the Audit Committee.

Management OLP has a well-established organizational structure to inform, direct, manage and monitor the activities of the Company toward the achievement of its objectives. Authorities and responsibilities are clearly and completely defined and it is ensured that the policies and procedures are understood throughout the organization. Mr. Shaheen Amin, CEO, with an MBA degree from University of Chicago and MS in Risk Management from New York University, has been associated with OLP Pakistan since 1986. During his association he has also served as founding general manager of Oman and Saudi leasing companies of ORIX Group. OLP has established four management committees to enhance the governance process throughout the organization. These consist of Management Committee, Credit Committee, Asset Liability Management Committee and IT Steering Committee. OLP has in-house developed IT application software that has been periodically upgraded and extended to all areas of the business. The entire branch network of the Company is online.

Business Risk After a year of negative growth in FY2020, Pakistan's economy has made a strong comeback this year. Although COVID-19 cases remained under control during the year, however multiple waves of pandemic underscore the risks still posed by COVID-19. In this scenario, the business conditions are still challenging, especially for the retail and entertainment sectors. For the coming year, OLP is cautiously hopeful and will focus on business expansion with increased due diligence and emphasis on controlling delinquency rate. Future business growth will be determined by global economic conditions as well as the pandemic scenario. OLP's size and structure allows it to rapidly adjust to a changing environment. In the coming year, the Company will look to introduce new products which will contribute to future growth. OLP has adopted a cautious business approach and focused on risk management and portfolio diversification. The Company remains the largest in the leasing segment in Pakistan. During FY21, the Company's Net Interest Revenue clocked-in at PKR 1,999mln (FY20: PKR 2,045mln) down by ~2.2% YoY due to the prevailing low interest rates. Pre-tax profit of the Company during FY21 improved to PKR 1,284mln (FY20 PKR 974mln). Post COVID-19, the Company's emphasis has been on consolidation of operations. At the same time, efforts were made to establish the base for launching new products in future when market conditions stabilize. OLP's ability to adjust with changing business conditions has been its strength.

Financial Risk OLP's financing book remained stable and mainly comprised of Lease and vehicle financing. The Company is one of the few in the financial industry to adopt IFRS9 to measure expected credit losses for its portfolio. The loan loss coverage ratio increased from 63% in June-20 to 87% in June-21 due to decrease in non-performing loans. Market risk relates to the fair value or the future cash flows of a financial instrument fluctuating as a result of changes in market prices. The Company has developed comprehensive policies to mitigate currency and other price risks. Company's main source of funding remains Bank borrowing and Certificates of Deposit. OLP maintains a healthy funding structure. Total borrowings of the Company stood at PKR 14.073bln for FY21 as compared to PKR 12.861bln at FY20 giving a gearing ratio of only 1.76x as at FY21(FY20: 1.78x). The capital adequacy ratio of the Company stood at 29% as at FY21 (FY20: 30%) against the minimum requirement of 10%.

Instrument Rating Considerations

About The Instrument Orix Leasing Pakistan Limited is going to issue secured, privately placed Term Finance Certificates "PPTFC" as an instrument of Redeemable Capital. Issue amount is PKR 3,000mln inclusive of PKR 1,000mln Greenshoe option. Allied Bank limited shall be the Financial Advisor & Lead Arranger. Tenor up to 05 years inclusive of 01 year grace period. The profit rate is 3-month Kibor plus 80 bps per annum with no floor or cap. Repayments shall be made in 16 equal quarterly installments; the first principal repayment falling due at the end of 15 months from the date of the first disbursement. The proceeds are mainly to support and expand the asset portfolio.

Relative Seniority/Subordination Of Instrument The issue is secured against specific charge on leased and financed asset and related receivables with 25% margin and company shall not create any encumbrances with respect to the underlying security and claims of such security holders shall rank superior to the claims of ordinary shareholders.

Credit Enhancement PPTFC is secured against the specific charge on leased and financed assets and related receivables with initial margin maintained at 25% that collectively covers value amounting to PKR 4bln (approx.).



The Pakistan Credit Rating Agency Limited

ORIX Leasing Pakistan Limited

BALANCE SHEET	30-Jun-21	30-Jun-20	30-Jun-19
	FY21	FY20	FY19
Assets			
Loans & Finances	7,621	4,507	4,763
Net Investment in Finance Lease	13,072	12,939	17,004
Operating Lease Assets	225	589	606
Investments	2,278	2,772	2,376
Other Assets	1,421	1,528	906
Non-Performing Finances	1,271	1,814	1,178
Less: Accumulated provision (specific/prudential)	(1,101)	(1,151)	(842)
Total Assets	24,786	22,999	25,991
Liabilities			
Certificates of Investment	4,869	4,407	4,259
Borrowings	9,203	8,454	11,387
Other Liabilities	2,188	1,904	2,332
Equity			
Total Equity	8,526	8,234	8,013
TOTAL LIABILITIES & EQUITY	24,786	22,999	25,991
INCOME STATEMENT			
Net Interest Revenue	1,999	2,045	2,131
Other Income	367	359	273
Operating Expenses	(1,136)	(1,136)	(1,188)
Pre-Provision Operating Profit	1,231	1,269	1,215
(Provision)/Reversals	18	(324)	182
Share of Profit of Associates	35	29	51
Taxes	(369)	(271)	(425)
(Loss) / Profit after taxation from discontinued operations	-	-	-
Net Income	915	702	1,023
Ratio Analysis			
Cost-to-Total Net Revenue	48%	47%	49%
Borrowings/ (Borrowings + Deposits)	65%	66%	73%
Total Debt / Equity (times)	1.65	1.56	1.95
Equity / Total Assets	34%	36%	31%
Impaired Lending / Gross Finances	6%	9%	5%
Loan Loss Provisions / Impaired Lending	87%	63%	71%

ORIX Leasing Pakistan Limited

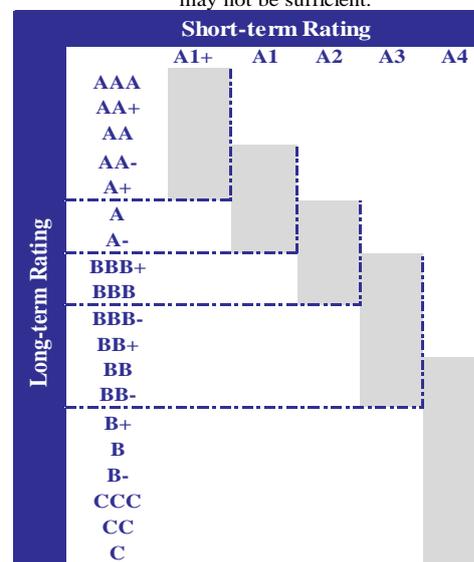
Dec-21

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	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	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.

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
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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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 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)

Proprietary Information

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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of issue	Tenor	Security	Quantum of security	Nature of Assets	Book value of Assets (PKR mln)	Trustee
PPTFC	PKR 3.0bln (inclusive of greenshoe option of PKR 1.0bln)	5 years, inclusive of one year grace period	Specific charge on leased and financed assets and related receivables with 25% margin	Approx PKR 4.0bln	Leased and Financed Assets, comprising of Machinery, Commercial Vehicles, Saloon Cars and Office Equipment	Approx PKR 4.0bln	In process

Name of Issuer	ORIX Leasing Pakistan Limited
Issue Date	15-Dec-2021
Maturity	15-Dec-2026

ORIX Leasing Pakistan Limited - PPTFC Issue

Installment No.	Due Date Installment*	Opening Principal	Principal Repayment*	Markup / Profit Rate	3M Kibor	Markup / Profit Payment	Installment Payable	Principal Outstanding
		PKR in mln				PKR in mln		
0	15-Dec-21	-	-					
1	15-Mar-22	3,000,000,000	-	10.75%	9.95%	80,625,000	80,625,000	3,000,000,000
2	15-Jun-22	3,000,000,000	-	10.75%	9.95%	80,625,000	80,625,000	3,000,000,000
3	15-Sep-22	3,000,000,000	-	10.75%	9.95%	80,625,000	80,625,000	3,000,000,000
4	15-Dec-23	3,000,000,000	-	10.75%	9.95%	80,625,000	80,625,000	3,000,000,000
5	15-Mar-23	3,000,000,000	187,500,000	10.75%	9.95%	80,625,000	268,125,000	2,812,500,000
6	15-Jun-23	3,000,000,000	187,500,000	10.75%	9.95%	75,585,938	263,085,938	2,625,000,000
7	15-Sep-23	3,000,000,000	187,500,000	10.75%	9.95%	70,546,875	258,046,875	2,437,500,000
8	15-Dec-23	3,000,000,000	187,500,000	10.75%	9.95%	65,507,813	253,007,813	2,250,000,000
9	15-Mar-24	3,000,000,000	187,500,000	10.75%	9.95%	60,468,750	247,968,750	2,062,500,000
10	15-Jun-24	3,000,000,000	187,500,000	10.75%	9.95%	55,429,688	242,929,688	1,875,000,000
11	15-Sep-24	3,000,000,000	187,500,000	10.75%	9.95%	50,390,625	237,890,625	1,687,500,000
12	15-Dec-24	3,000,000,000	187,500,000	10.75%	9.95%	45,351,563	232,851,563	1,500,000,000
13	15-Mar-25	3,000,000,000	187,500,000	10.75%	9.95%	40,312,500	227,812,500	1,312,500,000
14	15-Jun-25	3,000,000,000	187,500,000	10.75%	9.95%	35,273,438	222,773,438	1,125,000,000
15	15-Sep-25	3,000,000,000	187,500,000	10.75%	9.95%	30,234,375	217,734,375	937,500,000
16	15-Dec-25	3,000,000,000	187,500,000	10.75%	9.95%	25,195,313	212,695,313	750,000,000
17	15-Mar-26	3,000,000,000	187,500,000	10.75%	9.95%	20,156,250	207,656,250	562,500,000
18	15-Jun-26	3,000,000,000	187,500,000	10.75%	9.95%	15,117,188	202,617,188	375,000,000
19	15-Sep-26	3,000,000,000	187,500,000	10.75%	9.95%	10,078,125	197,578,125	187,500,000
20	15-Dec-26	3,000,000,000	187,500,000	10.75%	9.95%	5,039,063	192,539,063	-