



ORIX LEASING PAKISTAN LIMITED (OLP)

RATINGS (FEBRUARY 2008)

ORIX LEASING PAKISTAN LIMITED

	NEW	PREVIOUS
ENTITY RATINGS		
Long Term	AA+	AA+
Short Term	A1+	A1+

TFCS – SECURED

(PKR 2,500mln)

	NEW	PREVIOUS
	AA+	-

FINANCIAL DATA

PKR (mln)

	30-Jun-07	30-Jun-06
Total Assets	26,156	23,737
Equity	2,423	2,334
Net Income	334	396.3
ROA %	1.9	1.9
ROE %	14	18
Equity/ Total Assets %	9.2	9.8

ANALYSTS

Susan Sharaf
+92 42 5869504
susan@pacra.com

Moin Khalid
+92 42 5869504
moin@pacra.com

TFCS

■ The company has issued a listed, secured TFC of PKR 2,500mln in May - 2007. The issue has a tenor of 5 years, carrying profit at the rate of 6-months KIBOR plus 150bps without any floor and cap, payable semi-annually. The principal redemption is in six equal semi-annual installments beginning 30th month after issuance (i.e. November 2009). OLP has an early repayment option exercisable fully or partially at any redemption date after 1 year of issuance at a 30days notice and without any premium. The issue is secured by way of registered charge over specific leased assets and associated lease receivables with a 25% security margin.

RATING RATIONALE & KEY DRIVERS

- The ratings reflect OLP's sustained market leadership in an increasingly competitive operating environment. At the same time, the ratings recognize the management's ability to proactively realign its strategy with the changing business dynamics. The ratings also consider the implicit support of ORIX Corporation, Japan as a key factor.
- The ratings are dependent on the management's ability to maintain the volume expansion along with diversification into new segments, while continuously strengthening its risk management systems. Meanwhile, the company's inability to arrest any declining trend in spreads and/or a material deterioration in the asset quality could have negative implications for the ratings.

ASSESSMENT

- Although during FY07 OLP achieved a considerable growth of 15%, the competitive operating environment led to a slowdown in growth on YoY basis (FY06: 29%). The company managed to build business volumes on the back of increasing market access through addition of new branches to its strategically placed network. Meanwhile, vehicle leasing (64%) continued to dominate the asset mix followed by plant & machinery segment (34%). However, the benefit of volume expansion was not fully translated into net interest revenue due to squeeze in spreads. This was mainly on account of a significant proportion of fixed rate leases (70%) in the total, putting pressure on spreads in an increasing interest rate environment. Meanwhile the company's operating expenditure increased on the back of expansion related activities. Moreover, contribution on account of share of profits of associates was lower on YoY basis (FY07: PKR 79mln; FY06: PKR 144mln) on account of loss incurred by ORIX Investment Bank Pakistan Limited (OIBP). Consequently, the bottom line could not benefit from volume growth and it was constrained. Although during 1Q08 OLP largely maintained its finances portfolio, net interest revenue increased marginally due to improved spreads. However, increasing trend in operating expenditure continued with additional hiring of staff for new branches. Nevertheless, the bottom line depicted a notable increase on account of higher contribution of profit from associates.
- Going forward, OLP intends to continue maintaining the growth momentum on the back of enhanced geographical presence. However, given the current economic environment the management wants to follow a cautious stance over the near-term. The company is targeting to expand its network to 50 branches by end-FY10. In order to strengthen its auto lease business the company has setup auto lease branches close to residential areas in larger cities. This would help in improving customer service and client accessibility. In terms of business diversification, the board has approved the company's participation in ORIX Properties Pakistan (Pvt.) Limited, hence enabling the company to invest in property development and management business. Meanwhile, the focus of future overseas expansion would remain on identifying new areas for setting up joint venture companies. However, given that the performance of OIBP is likely to remain under pressure in the near-term, income from associates in the meantime might remain subdued. The company in line with its business strategy of expanding business in agriculture and micro finance is strengthening its respective network and products. Meanwhile, OLP intends to augment its revenues by increasing its focus on operating lease of generators and given the current energy crisis this segment offers growth potential.
- Although during the year, impaired lending in absolute terms increased significantly, net impaired lending to gross finances ratio (FY07: 3%; FY06: 2%) still remained low compared to peers, reflecting a good asset quality. Nevertheless, while regularly reviewing its risk management framework, the company is taking various measures to improve recoveries of bad loans. Recovery teams under the company's Special Asset Management department are being strengthened and the panel of external lawyers has been expanded to ensure faster follow-up of chronic clients.
- OLP, with gradually increasing gearing in line with growth, continues to maintain an adequate capital structure. The company's financing mix - long-term and short-term - is well aligned to its loan book, in terms of maturity profile with a predominately institutional funding base. For short-term borrowings the major reliance continues to be on COIs, mainly mobilized from the corporate sector with a modest contribution of individuals. OLP intends to diversify its funding base. In line with this, the company would be shortly drawing a loan of US\$ 50mln (PKR 3bln) from a syndicate of banks led by Citibank, Tokyo with the support of Nippon Export Insurance United Programme (NEXI) at a fixed rate of 11.05%, which would also support its spread management.

PROFILE

- ORIX Leasing Pakistan Limited (OLP), the largest leasing company in the country, commenced operations in 1987. The company has a network of 38 offices in 29 cities.
- OLP's major shareholder, ORIX Corporation, Japan (ORIX) having just below 50% shareholding continues to exercise control through the BoD. ORIX has an international long term rating of Baa1 by Moody's and provides technical support and policy guidelines to OLP. ORIX pioneered lease financing in Japan, and the company now delivers a wide range of financial services. ORIX, with a consolidated asset base of over US\$ 79bln as at end-07, has operations in 26 countries and regions. OLP has invested in the five leasing joint ventures of ORIX within the MENA and central Asian regions, and an investment bank in Pakistan, with board representation and participation in management of the investee companies. While there is no contractual obligation on the part of ORIX to support OLP in the event of a contingency, in PACRA's opinion, such support is likely to be forthcoming, if it proves necessary.
- Experienced professionals with majority representation of ORIX's employees dominate the Board. Mr. Humayun Murad, a Chartered Accountant who has been with the company since inception continues to be the CEO of the company. A team of experienced professionals, proactive in identifying and tapping new avenues, assists him.