

RATING REPORT

Trust Modaraba

REPORT DATE:

February 17, 2021

RATING ANALYSTS:

Arsal Ayub, CFA

arsal.ayub@vis.com.pk**RATING DETAILS**

	Latest Rating	Previous Rating
Rating Category	Entity	Entity
Entity	BBB-/A-3	BBB-/A-3
Rating Date	Feb 17, '21	Aug 27, '19
Rating Outlook	Stable	Rating Watch - Negative

COMPANY INFORMATION

Incorporated in 1991	External Auditors: Horwath Hussain Chaudhury & Company, Chartered Accountants
Public Listed Company	Chairman: Mr. Shaikh Arshad Farooq
	Chief Executive Officer: Mr. Basheer Ahmed Chowdry

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Non-Bank Financial Companies (March, 2020)

<http://vis.com.pk/kc-meth.aspx>

Trust Modaraba

OVERVIEW OF THE INSTITUTION RATING RATIONALE

Trust Modaraba (TM) was incorporated in 1991 under Mordaraba companies and Modaraba (flotation and control) Ordinance. TM is listed on Pakistan Stock Exchange with the head office located in Karachi. Financial Statements of the modaraba for FY19 were audited by Horwath Hussain Chaudhury & Company, Chartered Accountants.

Since 2009, Trust Modaraba (TM) has been managed by Al-Zamin Modaraba Management (Private) Limited (AZMM). TM is currently engaged in Ijarah, Murabaha, Musharakah trading and equity market operations. Majority certificate holding of the Modaraba is vested with an individual, Mr. Mohammad Aslam Motiwala (56.8%) followed by 17.7% interest by AZMM.

There are plans in place to reinforce capital buffers; however, management efforts to raise additional capital from existing shareholders have so far not been realized. Nevertheless, the management remains committed to increasing the capital base of the company, with potential merger with other Modaraba companies also being on the cards. Steps have also been taken to participate in micro-finance activities, for which regulatory approvals are being completed.

Key Rating Drivers

...Asset mix depicts lower exposure to financings and higher exposure to equity securities on a timeline

	Jun'19	Jun'20	Dec'20	Jun'19	Jun'20	Dec'20
Cash & Bank Balances	4,057	8,093	7,393	1.1%	2.3%	2.0%
Financings Portfolio	290,177	255,816	264,890	78.2%	71.6%	70.8%
Investment in Equities	13,702	27,529	33,532	3.7%	7.7%	9.0%
Investment Properties	13,703	20,405	20,405	3.7%	5.7%	5.5%
Others Assets	49,631	45,660	47,965	13.4%	12.8%	12.8%
	371,269	357,504	374,184			

- TM's asset base has remained stable, mainly moving in line with maturing financing arrangements. In the absence of any equity injection, TM's asset base has contracted at a CAGR of -1.3% during the past 4½ year period (Jun'16-Dec'20).
- The exposure to equity securities has increased from 3.7% to 9.0% of asset base, as illustrated in the table above. The increase can be partly attributed to the upswing in stock market performance experienced during the period.
- Financing operations comprise a relatively lower proportion of the asset base on a timeline, indicative of lower implicit credit risk on the balance sheet.

...Portfolio credit quality has depicted improvement, given settlement of a few Non-Performing Financings (NPFs)

- During the most recent period (H1'FY21), the management successfully settled a few large-sized NPFs. Resultantly, gross infection of the portfolio is notably lower on a timeline, as illustrated in the table below.

	Jun'19	Jun'20	Dec'20
Gross Infection*	33.6%	40.2%	26.5%
Provisioning Coverage*	54.0%	49.2%	25.6%
Net Infection*	18.8%	25.5%	21.1%

* Net of customer security deposits.

- Nevertheless, as the account mainly comprised income under suspense, which was taken as part of the provisioning, overall provisioning coverage has trended down on a timeline.
- In absolute terms, TM's NPFs remained at similar level during FY20 (Jun'20: Rs. 143m; Jun'19: Rs. 140m). The same have dropped to Rs. 102m as of Dec'20, given the account settlements discussed above.

Profitability has depicted improvement on the back of higher yield on investment portfolio

	FY19	FY20	H1'FY20	H1'FY21
Operating Revenue	33,607	34,824	15,695	21,946
- Income on Financing	29,478	28,431	14,313	13,080
- Income from Investments	209	937	185	5,465
- Trading Income	1,805	64	64	-
- Other Income	2,115	5,392	1,132	3,401
Operating Expenses	(29,699)	(30,504)	(15,241)	(15,609)
Efficiency	88.4%	87.6%	97.1%	71.1%
Other (Net)	(2,711)	(1,655)	1,742	1,967
Profit Before Tax	1,198	2,665	2,195	8,304
Profit After Tax	1,037	1,732	2,045	8,176

- The operating revenue posted strong growth, amidst an environment where operating expenses remained controlled. As a result improvement has been noted in the efficiency ratio in FY20, followed by further improvement in H1'FY21.
- The uptick is mainly attributable to the increase in yield on investment portfolio. Based on a 2-point average, the yield on investment portfolio increased from 1.3% to 4.5% in FY20, while yield in H1'FY21 was reported at 17.9% (un-annualized).
- The yield on financing portfolio increased by 80 bpts in FY20, albeit dropped by a similar quantum (89 bpts) in H1'FY21, based on a 2-point average, in tandem with the lower benchmark rates prevailing during the period.
- Given the aforementioned improvement in investment performance, the company's bottom line has depicted improvement. Future outlook on profitability remains depressed, in view of the sizable portfolio of non-performing assets and provisioning coverage, which is on the lower side.

Given capital retention and improved profitability, leverage has depicted improvement

- With no outstanding borrowings on the balance sheet, leverage indicators of the Modaraba continue to remain on the lower side.
- NPFs (net of provisioning and customer security deposits) comprised 16% of the company's equity base, as of Dec'20.
- Equity base of the company was reported at Rs. 316m as of Dec'20.
- Liquidity profile is also considered adequate with proportion of liquid assets to liabilities standing at 0.7x as of Dec'20.

Trust Modaraba (TM)
Appendix I

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>		
BALANCE SHEET	June 30, 2019	June 30, 2020	Dec 30, 2020	
Investments in Equities	13.7	27.5	33.5	
Investment Property	13.7	20.4	20.4	
Financing Portfolio (net)	290.2	255.8	264.9	
Total Assets	371.3	357.5	374.2	
Certificate Capital	298.0	298.0	298.0	
Net Equity	303.9	306.9	316.2	
INCOME STATEMENT	FY19	FY20	H1'FY20	H1'FY21
Total Income	33.6	34.8	15.7	21.9
Net (Provisioning) / Reversal	(2.6)	(1.1)	2.0	3.1
Operating Expenses	29.7	30.5	15.2	15.6
Profit (Loss) Before Tax	1.2	2.7	2.2	8.5
Profit (Loss) After Tax	1.0	1.7	2.0	8.2
RATIO ANALYSIS	June 30, 2019	June 30, 2020	Dec 30, 2020	
Gross Infection (%)*	33.6%	40.2%	26.5%	
Net Infection (%)*	18.8%	25.5%	21.1%	
Provisioning Coverage (%)*	54.0%	49.2%	25.6%	
Leverage	0.22	0.17	0.18	
Efficiency (%)	88.4	87.6	71.1%	
ROA (%)	0.3	0.5	4.5%**	
ROE (%)	0.3	0.6	5.2%**	
Current Ratio (x)	7.8	8.5	7.3	

*Net of Customer Security Deposits

** Annualized

ISSUE/ISSUER RATING SCALE & DEFINITIONS **Appendix II**

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.vis.com.pk/images/criteria_outlook.pdf

[SO] Rating: A suffix [SO] is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix [SO], abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

[blr] Rating: A suffix [blr] is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix [blr], abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES				Appendix III	
Name of Entity	Trust Modaraba				
Sector	Modaraba				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	17-Feb-21	BBB-	A-3	Stable	Maintained
	27-Aug-19	BBB-	A-3	-	Rating Watch - Negative
	26-Jan-18	BBB-	A-3	Stable	Maintained
	6-Dec-16	BBB-	A-3	Positive	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Basheer Ahmed Chowdry	Chief Executive	January 20, 2021		