

RATING REPORT

Trust Modaraba

REPORT DATE:

May 05, 2023

RATING ANALYSTS:

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Rating Category	Latest Rating	Previous Rating
Entity	BBB+ / A-2	BBB+ / A-2
Rating Date	May 05, 2023	April 26, '22
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION

Incorporated in 1991	External Auditors: Grant Thornton Anjum Rehman & Co. 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

Trust Modaraba (TM) was incorporated in 1991 under Mordaraba companies and Modaraba (flotation and control) Ordinance. TM is listed on Pakistan Stock Exchange with its head office located in Karachi. Financial Statements of the modaraba for FY21 were audited by Crowe Hussain Chaudhury & Co. Chartered Accountants.

Profile of the CEO

Mr. Basbeer A. Chowdry commenced his banking career in 1963. He is a gold medalist from Punjab University, holds a Diploma in Banking and is also a Member of the British Institute of Management, Member of the British Institute of Directors, and Member of the Institute of International Affairs, London.

He has vast banking experience in commercial, investment banking, international banking and the leasing business for the last 42 years having held very senior assignments with Bank of Credit & Commerce International, United Kingdom. He has been the Chief Executive Officer of the Modaraba

RATING RATIONALE

Since 2009, Trust Modaraba (TM) has been managed by Al-Zamin Modaraba Management (Private) Limited (AZMM). TM is currently engaged in Ijarah, Morabaha, Musharakah, and equity market operations. Majority certificate holding of the Modaraba is vested with an individual, Mr. Mohammad Aslam Motiwala (56.9%) followed by 17.7% interest by AZMM. In the longer run, the management is currently considering options pertaining to merger with other small Modaraba organizations, which will allow an increase in customer financing portfolio due to the availability of additional funds.

Key Rating Drivers

Financing portfolio continues to dominate the asset mix of the Modaraba

Rs. in millions	FY20	FY21	FY22	1HFY23
Financing (including Ijarah's FA)	254	270	311	313
Short term investments	18	26	33	25
Investment properties	20	22	-	-
Other assets	65	60	71	53
Total Assets	358	379	416	392

Overall asset base of the entity shrunk to Rs.392m (FY22: Rs.416m, FY21: Rs.379m) at end-1HFY23. The financing portfolio continues to represent the largest chunk of the asset base, comprising of Ijarah, Musharakah, and Murabaha modes of financing. During 1HFY23, financing in the form of Diminishing Musharakah witnessed a significant increase, as part of the management's plan to increase its share in Diminishing Musharakah mode of financing. While short term investments have increased on timeline basis, it depicted a decline in 1HFY23 due to management's decision to liquidate a portion of these investments amid depressed stock market conditions. However, management envisages that the market may turnaround owing to a finalization agreement of nearly concluded IMF deal.

Improvement in portfolio credit quality is mainly underpinned by a shift in the client mix of the portfolio coupled with settlement of a Non-Performing Financing (NPF)

Gross financing portfolio grew to Rs.329m in 1HFY22 (FY21: Rs.287m). Thereafter, gross financing portfolio of the entity has remained at the same level (FY22: Rs.330m, 1HFY23: Rs.331m). Ijarah and Murabaha modes of financing dominates the portfolio mix, representing around 90% of the total portfolio. With the shift implemented in the client profile wherein more weightage given to the corporate sector and high net worth individuals, it has paved the way for improvement in the credit risk profile of the entity. The entity also has its portfolio in rural Sindh, where floods have inflicted unprecedented damaged across the province. However, management does not anticipate any major damage given the areas

for more than 17 years. He has served as the Chairman, Modaraba Association and Leasing Association of Pakistan and was a Director on the Board of Karachi Stock Exchange (Guarantee) Limited nominated by Securities & Exchange Commission of Pakistan as well as a member of the steering committee of the United Nations Development Program for Corporate Governance in Pakistan.

Financial Snapshot

Net Equity: end-FY20: Rs.307m; end-FY21: Rs.316m, end-FY22: Rs.321m

Total Assets: end-FY20: Rs.358m, end-FY21: Rs.379m, end-FY22: Rs.416m

Income: end-FY20: Rs.34m; end-FY21: Rs.45m, end-FY22: Rs.58m

Profit After Tax: end-FY20: Rs.1.7m; end-FY21: Rs.6.6m; end-FY22: Rs.11.3m

catered by the entity are located on the left bank where the damage is minimal, albeit they may face some temporary delays in receipts of receivable. There has been a shift in the asset mix of the Modaraba. Demand for small cars have dropped amid increase in prices, albeit the demand for big cars have depicted an increase. Hence, Ijarah financing will continue to persist, going forward.

During 1HFY23, NPLs stood at Rs.87m (FY22: Rs.87m, FY21: Rs.98m). Management expects recoveries of Rs.55.6m, of which Rs.40m is to be received for the land which is situated at DHA Lahore, Rs.5m for the shop located in Hyderabad, Rs.10m is to be received from Prime Traders and Rs.0.6m from A.M Pipe stores). No new NPLs has been accrued and recovery from litigated portfolio continues to be the top priority of the management. In tandem with the recoveries, gross infection and net infection has declined on a timeline basis and are expected to remain persistent in line with the expected recoveries, going forward. With the entity reporting a higher income during FY22, provisioning coverage saw a sizeable increase, albeit a slight decrease was noted in 1HFY23.

	FY20	FY21	FY22	1HFY23
Gross Infection*	40.1%	23.6%	9.7%	10.4%
Provisioning Coverage*	49%	29%	69%	63%
Net Infection*	25.3%	18.0%	3.3%	4.2%
*Net of customer security deposits				

Recovery from litigated portfolio has provided impetus to the income

Rs. in millions	FY21	FY22	1HFY22	1HFY23
Operating Revenue	44.3	75.8	61.9	21.7
Income on financing	26.3	32.7	17.9	19.5
Income from Investments	8.4	0.4	0.5	0.8
Other Income	9.6	42.6	43.5	1.3
Operating Expenses	(36.4)	(43.5)	(19.9)	(19.8)
Efficiency	82%	57%	32%	91.2%
Other (Net)	0.1	(19.2)	-22.3	(2.9)
Profit Before tax	8.0	13.1	18.5	(1.0)
Profit After tax	6.6	11.4	14.6	(1.8)

Total income of the entity registered a notable increase of 71% in FY22. The increase was mainly driven by the recovery of Rs.50m from litigated portfolio. On the other hand, income from financing activities posted an increase of 24%. As a prudent portfolio risk management strategy, the management had to enhance coverage by recording an amount of Rs.5.04m. Following posting good performance in the previous year, performance of stock market remained depressed, resulting in an unrealized loss of Rs.12.5m. Total income in 1HFY23 was significantly lower vis-à-vis SPLY, given the gain on settlement of Rs.37m contributed significantly to the income in 1HFY22. Operating expenses in 1HFY23 remained at similar levels. Mainly on the back of an unprecedented decrease in the stock market index and the market price of shares, net loss was recorded in 1HFY23.

Going forward, given the probable recovery from the litigated portfolio, profitability is expected to improve. As per the projections, recovery from the litigated portfolio in Jun'23 is listed below:

Rs. in millions	Recovery (Rs.)
Land (DHA Lahore)	20.0
SHOPS (Hyderabad)	5.0
A.M. Pipe Store	0.6

Equity base depicted a slight decline on account of net loss, however, leverage indicator remain sound given the entity's debt free capital structure

TM's leverage indicators continue to remain on the lower side given no outstanding borrowings on the balance sheet. Net loss in 1HFY23 resulted in a slight decline in the equity base, dropped to Rs.319m (FY22: Rs.321m). Liquidity profile has shown a considerable improvement, with liquid assets providing 1.7x coverage to current liabilities in 1HFY23 (FY22: 1.1x, FY21: 1.4x), nevertheless it remains adequate. The firm has access to credit lines and they are in the process of negotiation with notable banks.

Trust Modaraba (TM)
Appendix I

Financial Summary (amounts in PKR millions)					
	FY19	FY20	FY21	FY22	1HFY23
Investments in Equities	13.7	27.5	36.6	40.2	32.3
Investment Property	13.7	20.4	8.5	-	-
Financing Portfolio (net)	290.2	253.6	270.2	311.5	312.9
Total Assets	371.3	357.5	378.8	415.6	391.6
Certificate Capital	298.0	298.0	298.0	298.0	298.0
Net Equity	303.9	306.9	315.6	321.1	318.7
Income Statement					
Income from ijarah	12.5	8.7	9.7	15.7	9.3
Profit on murabaha finances	11.5	11.7	10.8	10.8	4.5
Profit on musharakah finances	5.5	8.0	5.8	6.3	5.7
Income from investments - net	0.2	0.9	8.4	0.4	0.8
Trading income	1.8	0.1	-	-	-
Other income	2.1	5.4	9.6	42.6	1.3
Total Income	33.6	34.8	44.3	75.8	21.7
Net Provisioning/Reversal	(2.6)	(1.1)	1.1	(17.5)	(2.9)
Operating Expenses	(29.7)	(30.5)	(36.4)	(43.5)	(19.8)
Profit (Loss) Before Tax	1.2	2.7	8.0	13.1	(1.0)
Profit (Loss) After Tax	1.0	1.7	6.6	11.4	(1.8)
Ratio Analysis					
Gross Infection*	33.60%	40.20%	23.6%	9.7%	10.4%
Net Infection*	18.80%	25.50%	18.0%	3.3%	4.2%
Provisioning Coverage*	54.00%	49.20%	28.9%	68.6%	62.6%
Leverage	0.22	0.17	0.20	0.29	0.22
Efficiency	88.40%	87.60%	82.2%	57.4%	91.2%
ROA**	0.30%	0.50%	1.7%	2.7%	-0.5%
ROE**	0.30%	0.60%	2.1%	3.5%	-0.6%
Current Ratio	7.8	8.5	7.89	4.92	7.65

*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				
	05-May-23	BBB+	A-2	Stable	Reaffirmed
	26-April-22	BBB+	A-2	Stable	Upgrade
	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.				
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Due Diligence Meetings Conducted	Name	Designation		Date	
	Mr. Basheer Ahmed Chowdry	Chief Executive Officer		April 12, 2023	
	Ms. Hamida Aqeel	Chief Operating Officer/Company Secretary		April 12, 2023	