

RATING REPORT

Trust Modaraba

REPORT DATE:

May 13, 2024

RATING ANALYSTS:

Zainab Imran

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Entity	Entity
Entity	BBB+ / A-2	BBB+ / A-2
Rating Date	May 13, 2024	May 05, 2023
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

<https://docs.vis.com.pk/Methodologies%202024/NBFCs202003.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Trust Modaraba

OVERVIEW OF THE INSTITUTION	RATING RATIONALE																																										
<p><i>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 FY23 were audited by Grant Thornton Anjum Rahman.</i></p> <p>The Financial Statements have no qualified opinion.</p> <p><i>The two points raised by the auditor in the Emphasis of Matter section are: i) Land owned but not possessed by the modaraba, and ii) Management holds Rs 4.82m for unclaimed dividends out of Rs 12.83m in unclaimed profits, with an Rs 8.3m shortfall from Trust Management Services prior to 2009</i></p> <p>Profile of the CEO</p> <p><i>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.</i></p> <p><i>He has vast banking experience in commercial, investment banking, international banking and</i></p>	<p>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 holding (56.9%) followed by 18% interest by AZMM.</p> <p>Key Rating Drivers</p> <p>Financing portfolio continues to dominate the asset mix of the Modaraba</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th>FY19</th> <th>FY20</th> <th>FY21</th> <th>FY22</th> <th>FY23</th> <th>9M'FY24</th> </tr> </thead> <tbody> <tr> <td>Financing (net)</td> <td>290</td> <td>254</td> <td>270</td> <td>309</td> <td>313</td> <td>342</td> </tr> <tr> <td>Short term investments</td> <td>8</td> <td>18</td> <td>26</td> <td>33</td> <td>24</td> <td>15</td> </tr> <tr> <td>Investment properties</td> <td>14</td> <td>20</td> <td>8</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Other assets</td> <td>59</td> <td>65</td> <td>74</td> <td>74</td> <td>52</td> <td>43</td> </tr> <tr> <td>Total Assets</td> <td>371</td> <td>358</td> <td>379</td> <td>416</td> <td>389</td> <td>400</td> </tr> </tbody> </table> <p>The overall asset base of the entity has increased to Rs. 400m (FY23: Rs. 389 million) in 3rd Quarter FY24. The financing portfolio, consisting of Ijarah, Musharakah, and Murabaha modes of financing, continues to serve as the primary component of asset base. During FY23 and 9M'FY'24, financing under Diminishing Musharakah witnessed a significant increase, as part of the management's plan to increase car financing under Diminishing Musharakah mode of financing. While short-term investments have increased on timeline basis, it depicted a decline in FY23 and 9M'FY'24 due to management's decision to liquidate a portion of these investments amid depressed stock market conditions and use the resources in core business operations.</p> <p>Cautious Portfolio growth</p> <p>The gross portfolio of the entity has demonstrated stability, maintaining levels of (FY22: 330m & FY23: 334m), with noticeable improvement to Rs. 364m in 9MFY'24. While Musharakah portfolio (FY22: Rs. 29m, FY23: Rs. 96m, 9M'FY'24: Rs. 181m) recorded strong growth, it was offset by decline in Ijarah and Murabaha portfolios, leaving the gross portfolio fairly stable. Within the Musharaka portfolio, the shift was towards more secured car financing.</p>		FY19	FY20	FY21	FY22	FY23	9M'FY24	Financing (net)	290	254	270	309	313	342	Short term investments	8	18	26	33	24	15	Investment properties	14	20	8	-	-	-	Other assets	59	65	74	74	52	43	Total Assets	371	358	379	416	389	400
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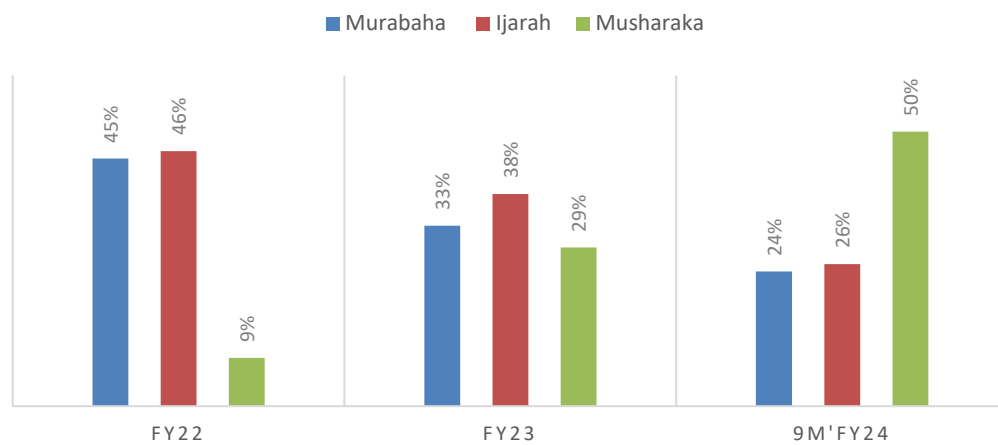
the leasing business for the last 42 years having held very senior assignments with Bank of Credit & Commerce International, United Kingdom. He has been the Chief Executive Officer of the Modaraba for more than 17 years.

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.

Contingencies and commitments

The ongoing hearing regarding the non-applicability of sales tax on Modarabas is of significant interest. As such, no provision for any sales tax liability on rentals of lease financing has been accounted for in the financial statements.

GROSS PORTFOLIO DISTRIBUTION



In view of the heightened credit risk environment, the Modaraba Company has followed a prudent and cautious lending strategy, whereby corporate and high net worth individuals have been focused for new disbursements, with limited SME exposure. In FY23, disbursements accounted for 55% (FY22: 38%), to the high-net-worth individuals, 37% (FY22: 57%) to Corporate sector and 8% (FY22: 5%) to SMEs.

Within the corporate and SME exposures, main sectors included Healthcare (13%), Media (8%), Agriculture (6%), and Energy Oil and Gas (6%).

Infection remained contained

Gross Non performing loans (NPL) were contained by the management in FY23 with further improvement noted in HYFY24 with gross NPLs recorded at Rs.74m (FY23: Rs.80m, FY22: Rs.81m). No new NPL 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.

	FY20	FY21	FY22	FY23	1H'FY24
Gross Infection	40.1%	23.6%	9.7%	11.3%	9.5%
Provisioning Coverage	-	-	26.4%	26.3%	29.5%
Net Infection	25.3%	18.0%	3.3%	4.3%	2.7%

While provision coverage is lower, management takes comfort from underlying collateral assets providing sufficient coverage. Going forward, management expects recoveries of around Rs 50m against litigated portfolio mainly from Al-Rai Roller Flour Mills and Prime Traders. They also expect settlement in DHA Lahore case which has been in contention for some time.

Uptick in profitability on the back of improved spreads

Rs. in millions	FY20	FY21	FY22	FY23	9M'FY24	FY24	FY25
	Actual				Projections		
Operating Revenue	29.4	34.8	33.1	38.5	38.6	54.9	67.5
- Income on financing	28.4	26.3	32.7	38.5	44.4	60.7	64.0
- Short-Term Investment	0.9	8.4	0.4	(0.1)	(5.8)	(5.8)	3.4
Other Income	5.4	9.6	42.6	2.7	2.2	3.0	3.3
Total Income	34.8	44.3	75.8	41.2	40.8	57.9	70.7
Operating Expenses	(30.5)	(36.4)	(43.5)	(37.3)	(27.0)	(36.1)	(40.6)
Efficiency	88%	82%	57%	91%	66%	62%	57%
Provision against assets (Doubtful receivables)	(1.9)	-	(5.0)	(1.7)	(1.4)	(1.8)	(2.5)
Unrealized gain/(loss) on revaluation of financial assets	0.8	1.1	(12.4)	(1.1)	13.6	13.6	6.8
Other (Net)	(0.5)	(1.1)	(1.8)	(0.1)	(6.7)	(7.6)	3.0
	(1.7)	0.1	(19.2)	(2.9)	5.5	4.2	7.3
Profit Before tax	2.6	8.0	13.1	1.0	19.3	26.0	37.4
Profit After tax	1.7	6.6	11.4	(0.1)	16.1	21.6	31.1

Modaraba posted an operating profit before tax of Rs. 1.01 million for FY23. However, due to the revocation of the earlier tax exemption, a tax liability of Rs. 1.08 million was recorded, leading to a slight loss of Rs. 0.07m at year end FY23. During 9M'FY24, the Modaraba observed a significant uptick in profitability to Rs. 16.1 million. The improvement in profitability is partly due to redeployment of funds at better spreads as well as contribution from unrealized gain of Rs.13.6 million on the investment portfolio.

Operating revenues depict improvement year over year; however, market risk exposure of the investment portfolio remains a challenge. Also, last year Trust Modaraba recorded a one-off settlement against litigated portfolio which boosted the revenue of the Company. Operational efficiency remains on the higher side, although it depicts an improvement in 9MFY24.

Leverage indicator remains sound given the entity's debt free capital structure

TM's leverage indicators continue to remain on the lower side given no borrowings on the balance sheet. Equity profile has improved at end HYFY24 to Rs. 340m (FY23: 326m, FY22: 326m) due to improved profitability.

Liquidity profile is considered adequate with liquid assets providing 56% (FY23: 115%) coverage to current liabilities.

Trust Modaraba (TM)
Appendix I

Financial Summary (Amounts in PKR millions)					
	FY20	FY21	FY22	FY23	9M'FY24
Investments in Equities	27.5	36.6	40.2	29.9	17.4
Investment Property	20.4	8.5	-	-	-
Financing Portfolio (net)	253.6	270.2	309.1	312.0	342.0
Total Assets	357.5	378.8	415.6	388.8	400.0
Certificate Capital	298.0	298.0	298.0	298.0	298.0
Net Equity	306.9	315.6	321.1	320.0	338.9
Income Statement					
Income from ijarah	8.7	9.7	15.7	16.7	10.6
Profit on murabaha finances	11.7	10.8	10.8	7.5	3.4
Profit on musharakah finances	8.0	5.8	6.3	14.3	30.4
Income from investments - net	0.9	8.4	0.4	2.2	0.6
Gain/Loss on Investments-Realized	-	-	-	(2.3)	(6.4)
Other income	5.4	9.6	42.6	2.7	2.2
Total Income	34.8	44.3	75.8	41.2	40.8
Provision against assets (Doubtful receivables)	(1.9)	-	(5.0)	(1.7)	(1.4)
Unrealized gain/(loss) on revaluation of financial assets	0.8	1.1	(12.4)	(1.1)	13.6
Operating Expenses	(30.5)	(36.4)	(43.5)	(37.3)	(27.0)
Others (Net)	(0.5)	(1.1)	(1.8)	(0.1)	(6.7)
Profit (Loss) Before Tax	2.7	8.0	13.1	1.0	19.3
Profit (Loss) After Tax	1.7	6.6	11.4	(0.1)	16.1
Ratio Analysis					
Gross Infection	40.20%	23.6%	9.7%	11.3%	-
Net Infection	25.50%	18.0%	2.4%	4.0%	-
Provisioning Coverage	-	-	26.43%	27.20%	-
Leverage	0.17	0.20	0.29	0.21	0.18
Efficiency	87.60%	82.2%	57.4%	90.6%	66.3%
ROA**	0.50%	1.7%	2.7%	0.0%	4.0%
ROE**	0.60%	2.1%	3.5%	0.0%	4.7%
Current Ratio	8.5	7.89	4.92	6.43	3.97

** Annualized

REGULATORY DISCLOSURES		Appendix II			
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				
	13-May-24	BBB+	A-2	Stable	Reaffirmed
	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.				
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Due Diligence Meetings Conducted	Name	Designation		Date	
	Mr. Basheer Ahmed Chowdry	Chief Executive Officer		April 22, 2024	
	Ms. Hamida Aqeel	Chief Operating Officer/Company Secretary		April 22, 2024	