

RATING REPORT

Allied Rental Modaraba

REPORT DATE:

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RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Long-term	Long-term
Entity	A+	A+
Rating Date	December 31, '18	October 2, '17
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 2006	External auditors: A.F.Ferguson & Co., a member firm of Price Waterhouse Coopers (PWC)
Public Listed Company	Chairman: Mr. Khwaja Asif Rahman
Key Certificate holders (with stake 5% or more):	Chief Executive Officer: Mr. Murtaza Ahmed Ali
Allied Engineering and Services (Private) Limited – 49%	
Allied Engineering Management Company (Private) Limited – 20%	
Magenta International Limited – 22%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Modaraba Rating Scale <http://www.jcrvis.com.pk/images/JCR-Mod.pdf>

Allied Rental Modaraba

OVERVIEW OF THE INSTITUTION

Allied Rental Modaraba (ARM) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed there under and is managed by Allied Engineering Management Company (Private) Limited. The management company is incorporated in Pakistan under the Companies Ordinance, 1984 and registered with the Registrar of Modaraba Companies and Modarabas. ARM is listed on the Pakistan Stock Exchange.

RATING RATIONALE

Current ratings of the company take into consideration strong financial profile along with adequate leverage and liquidity indicators. ARM, a wholly owned subsidiary of Allied Engineering & Services (Pvt) Limited (AESL), is the market leader in generator rental business. Support from AESL, the authorized dealer of Caterpillar (CAT) products in Pakistan, remains a key rating factor. ARM has arranged a service and maintenance arrangement with AESL, which is also an authorized distributor of renowned global construction and logistics equipment manufacturers such as SANY, Ingersoll Rand etc.

Key Rating Drivers:

Financing Portfolio: Historically, financings of the company largely comprised gensets. However, with improving electricity situation in the country, the company has diversified into construction machinery and logistics. During FY18, contribution of ARM's construction segment in overall business also increased on account of more infrastructure projects launched as an outcome of China Pakistan Economic Corridor (CPEC). As per management, demand for construction machineries and out bound logistics is expected to increase in the coming years.

Profitability: In line with its diversification strategy, revenue base of the company increased on the back of its logistics and construction machinery business. In order to procure machinery for expanding these business streams, the company procured additional debt. As a result, bottom line of ARM was adversely impacted on account of higher finance and depreciation expenses. Going forward, significant amount of additional debt will not be required given that liquidity will be generated from settling of its outstanding receivables. Deployment level of rental fleet and support in revenues from logistics and construction projects will remain key rating drivers.

Liquidity: Assigned ratings take into account adequate liquidity profile and robust cash flows of the Modaraba in view of strong internal cash generation and issuance of right certificates. With an improved bottom line, funds from operations increased to Rs. 1.3b (FY16: Rs. 1.0b) in FY17. Aging profile of receivables depicts weakening with 12% (FY16: 2%) of receivables in the more than 1 year bucket. As per management, these are expected to be paid off in the first half of FY18. Against a capex requirement of Rs. 1.5b, management believes that a significant amount of additional debt will not be required; given that liquidity will be generated from settling of these receivables. Exposure to credit risk of ARM is also considered manageable with assets written in the ownership of the modaraba itself. In line with the company's philosophy of conservative gearing levels, gearing and debt leverage of ARM stood low at 0.60x and 0.77x in FY17.

Capitalization & Funding: With stable internal capital generation, capitalization levels have strengthened over the years. Subsequently, leverage indicators remain within manageable levels despite additional debt mobilized. Going forward, further expansion in operating assets is kept on hold given the prevailing market dynamics. Ability to maintain leverage at moderate levels while pursuing growth related objectives will remain important.

Allied Rental Modaraba (ARM)

Appendix I

FINANCIAL SUMMARY					
	<i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	Jun 30, 2018	Jun 30, 2017	Jun 30, 2016	Jun 30, 2015	Jun 30, 2014
Cash and Bank Balances	91.2	307.4	57.4	74.5	48.0
Ijarah Rentals Receivable	1,334.1	987.9	724.3	481.9	305.5
Ijarah Assets	6,732,935	6,059.7	5,726.2	5,102.1	4,644.8
Total Assets	9,036.5	8,361.0	7,211.3	5,933.9	5,356.6
Creditors, Accrued & Other Liabilities	625.3	590.5	705.9	441.9	419.7
Borrowings*	3,044.0	2,837.8	1,900.6	1,702.0	1,729.2
Equity	5,150.5	4,658.6	4,382.2	3,703.8	3,118.7
<u>INCOME STATEMENT</u>					
	Jun 30, 2018	Jun 30, 2017	Jun 30, 2016	Jun 30, 2015	Jun 30, 2014
Rental Income	3,574.1	3,001.0	2,585.3	2,603.9	2,450.1
Operating Expenses	2,758.4	2,277.0	2,088.4	1,987.0	1,669.6
Gross Profit	937.8	839.3	598.5	712.4	872.6
Finance Costs	246.7	169.4	141.1	209.2	165.7
Profit (Loss) Before & After Tax	395.1	457.9	294.3	403.5	651.4
<u>RATIO ANALYSIS</u>					
	Jun 30, 2018	Jun 30, 2017	Jun 30, 2016	Jun 30, 2015	Jun 30, 2014
FFO (Rs. In Millions)	1,069.9	1,349.5	1,030.5	1,174.0	1,257.0
FFO to Total Debt	0.35x	0.48x	0.54x	0.60x	0.57x
Gearing	0.59x	0.60x	0.56x	0.53x	0.71x
Leverage	0.75x	0.77x	0.65x	0.66x	0.87x
ROAA (%)	4.4	5.9	4.5	7.2	13.4
ROAE (%)	7.7	10.1	7.3	11.8	23.8

* excluding off balance sheet financing

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 Rated Entity	Allied Rental 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				
	02-Oct-17	A+	A-1	Stable	Reaffirmed
	28-Dec-15	A+	A-1	Stable	Reaffirmed
	29-Dec-14	A+	A-1	Stable	Reaffirmed
	30-Jul-13	A+	A-1	Stable	Upgrade
	04-Jul-12	A	A-2	Positive	Maintained
	14-Mar-11	A	A-2	Stable	Upgrade
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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	JCR-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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