RATING REPORT

Allied Rental Modaraba

REPORT DATE:
December 26, 2019

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
Entity	A+	A+
	Short-term	**Short-term**
	A-1	A-1
Rating Date	*December 26, '19*	*December 31, '18*
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. Syed Faisal Ali
Key Certificate holders (with stake 5% or more):	**Chief Executive Officer:** Mr. Murtaza Ahmed Ali
Allied Engineering and Services (Private) Limited – 69%	
Allied Engineering Management Company (Private) Limited – 20%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Modaraba Rating Scale

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 (now Companies Act 2017) and is registered with the Registrar of Modaraba Companies and Modarabas. ARM is listed on the Pakistan Stock Exchange.

RATING RATIONALE

The assigned ratings reflect sound financial risk profile of the modaraba as evident from adequate liquidity profile and capitalization levels. Philosophy of the sponsors in maintaining gearing at conservative levels is also a key rating factor. Ratings continue to derive strength from the arrangement with Allied Engineering Services Limited (AESL), which is the sole dealer for Caterpillar products in Pakistan and authorized dealer of other leading material handling equipment. List of products is provided below.

During FY19, Mr. Asif Khwaja Rahman left the Board and was replaced by Syed Feisal Ali as Chairman of ARM's Board.

Key Rating Drivers:

Better grid availability and consequently lower growth potential of gensets business, diversification into construction machinery and logistics is being pursued.
In line with prevailing economic scenario and improving electricity situation of the country, ARM has reoriented itself to become a complete rental solution provider for all segments from power to logistics. Accordingly, while gensets continued to represent largest proportion of Ijarah assets, the company continued its diversification towards the logistics and construction machinery segments through additions in both segments. The company is cautiously expanding its rental fleet but will remain cautious over the medium term due to external debt challenges and its effect on infrastructure investment projects. The modaraba is also continuously tapping new rental agreements for the transportation business with leading FMCGs and Oil Field Services companies to deploy its rental assets to more profitable segments of the business. As per management, demand for construction machineries and out bound logistics is also expected to increase in the coming years.

Profitability remained stagnant on account of lower gross margins and higher finance cost; earnings may improve on account of volumetric growth in logistics/construction business and stable margins.
Ijarah rentals increased by ~3% to Rs. 3.7b (FY18: Rs. 3.6b) in FY19. Growth in revenues was slow due to pressure on economy, resulting in stagnation of new contracts as well as price increments. Nevertheless, diversification of rental portfolio ensured maintenance of rentals. Given the diversification, logistics contributed 46% to FY19 revenues while power segment contributed to 40% of the revenue base. The company does not plan to pursue significant capex in the ongoing fiscal year. Gross margins have followed a declining trend on account of higher fuel costs, impact of rupee depreciation and greater proportion of logistics business which has lower margins vis-à-vis power rentals. Bottom line was further impacted on account of higher finance and depreciation expenses. Management is of the view that going forward profitability will improve on account of better gross margins as impact of depreciation has almost been accounted for, limited debt drawdown, debt repayment and consequently lower finance cost, along with stability of exchange rate. Deployment level of rental fleet and support in revenues from logistics and construction projects will remain key rating drivers.

Liquidity profile is satisfactory while leverage indicators continue to remain

manageable.
Funds flow from operations increased to Rs. 1.2b (FY18: Rs. 1.1b) in FY19. Ratings continue to take into account adequate liquidity profile and robust cash flows of the Modaraba. Ijarah receivables reduced slightly in the outgoing year. In line with the company's philosophy of conservative gearing levels, gearing and debt leverage of ARM stood low at 0.45x and 0.66x at end-FY19.

Capitalization levels have improved over the years while further expansion in assets is kept on hold.
With stable internal capital generation, capitalization levels have strengthened over the years. Subsequently, leverage indicators remain within manageable levels. 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

BALANCE SHEET (Rs. m)	30-Jun-19	30-Jun-18	30-Jun-17
Cash and Bank Balances	50.6	91.2	307.4
Ijarah Rentals Receivable	1,235.6	1,334.1	987.9
Ijarah Assets	6,434.7	6,732.9	6,059.7
Total Assets	8,829.0	9,036.5	8,361.0
Creditors, Accrued & Other Liabilities	821.6	625.3	590.5
Borrowings*	2,414.6	3,044.0	2,837.8
Paid up capital	2,200	2,000	1,755
Equity	5,333.5	5,150.5	4,658.6
INCOME STATEMENT	**30-Jun-19**	**30-Jun-18**	**30-Jun-17**
Rental Income	3,694.3	3,574.1	3,001.0
Operating Expenses	2,907.1	2,758.4	2,277.0
Gross Profit	914.6	937.8	839.3
Finance Costs	288.4	246.7	169.4
Profit (Loss) Before & After Tax	382.9	395.1	457.9
RATIO ANALYSIS	**30-Jun-19**	**30-Jun-18**	**30-Jun-17**
FFO (Rs. In Millions)	1,178.9	1,069.9	1,349.5
FFO to Total Debt	0.49x	0.35x	0.48x
Gearing	0.45x	0.59x	0.60x
Leverage	0.66x	0.75x	0.77x
Current Ratio	1.10	1.23	1.09
ROAA (%)	4.3	4.4	5.9
ROAE (%)	7.3	7.7	10.1

** excluding off balance sheet financing*

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

VIS Credit Rating Company Limited

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 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				
26-Dec-19	A+	A-1	Stable	Reaffirmed
31-Dec-18	A+	A-1	Stable	Reaffirmed
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

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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