RATING REPORT

Allied Rental Modaraba

REPORT DATE:
June 17, 2022

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
Entity	A+	A+
Short-term	A-1	A-1
Rating Action	*Maintained*	*Reaffirmed*
Rating Date	*June 17, '22*	*June 11, '21*
Rating Outlook	Rating Watch - Developing	Stable

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** A. F. Ferguson & Co.
Public Listed Company	**Chairman:** Syed Feisal 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: Non-Bank Financial Companies (March 2020)
https://docs.vis.com.pk/docs/NBFCs202003.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. ARM is listed on the Pakistan Stock Exchange.

Profile of the Chairperson

Syed Feisal Ali serves as the Chairman of ARM and Managing Director at Allied Engineering & Services (Pvt) Ltd. Mr. Feisal is also on the board of Allied Engineering Management Co. (Pvt.) Ltd. He previously held the position of Finance Director of Pakistan Herald Publications Ltd

Profile of the CEO

Mr. Murtaza Ahmed Ali is the CEO of Allied Rental Modaraba. He is a fellow member of the Institute of Chartered Accountants of Pakistan (ICAP) and a qualified Cost & Management Accountant. He has got over 25 years of financial and business management experience of working in different industries.

RATING RATIONALE

The ratings assigned to Allied Rental Modaraba (ARM) take into account the company being a subsidiary of Allied Engineering & Services (Pvt.) Limited (AESL); the latter is the market leader in generator business. The implicit support available from AESL, the authorized dealer of Caterpillar (CAT) products in Pakistan, remains a key rating driver. The ratings are underpinned by sound financial risk profile of the company emanating from relatively conservative capital structure, low leverage indicators, adequate liquidity, and maintained asset quality.

Recently, a scheme of demerger pertaining to the entity was submitted to Registrar Modarabas, SECP, and other regulatory bodies for their approval. The scheme of arrangement involves four companies; Allied Rental Modaraba (ARM), Allied Engineering Management Company (Private) Limited (AEMCL), Allied Transport and Logistics (Private) Limited (ATL), Allied Engineering and Services (Private) Limited (AESL).

- ARM is a Modaraba floated and managed under the Modaraba Ordinance by AEMCL.
- AEMCL is the management company of ARM, which is also registered as a Modaraba Company under the Modaraba Ordinance.
- ATL is a private limited company authorized to carry logistics business.
- AESL is a private limited company authorized to carry the business of earth moving equipment, power generation equipment, and varying other machines.

The scheme involves the transfer of assets, liabilities, and obligations of rental business segment and logistic business segment of ARM to two companies. Assets, liabilities, and obligations of the demerged rental business segment will be transferred to AEMCL. Besides, the name of AEMCL will be changed as Allied Rental Services (Private) Limited (ARSL). Assets, liabilities, and obligations pertaining to the demerged logistic business segment will be transferred to ATL. As part of this arrangement, shares of AEMCL and ATL will be issued to the certificate holders of ARM according to the swap ratio calculated for the purpose of this scheme.

Principal sponsors, who indirectly hold more than 90% certificates of ARM, will be issued shares of AEMCL and ATL in proportion of their indirect investment in ARM. Consequently, there will be a reduction in the paid up share capital of AESL by Rs. 27.5m plus any further investment done by AESL for purchasing ARM certificates from other certificate holders.

The objective of demerger of ARM is to carry on business economically and efficiently. Income of Moadraba used to be exempt from income tax as per section 37 of Modaraba Ordinance. However, after 40 years the exemption was withdrawn via the Finance Act of 2021-22. As per Pakistan Business Council release, of every Rs. 100 profit in a subsidiary, the net income and doubly taxed dividend, the shareholder of the parent receives Rs. 46 or less than half. Due to regressive intercorporate dividend regime, it is not feasible for ARM and its certificate holders to bear the expenses of both the entities and pay multiple taxes on intercorporate dividends. The scheme will reduce the tax burden for the ultimate beneficial owners by directly holding shares of the two companies. The demerger of ARM in two private limited companies will also allow the management of each company to focus on the business segment sought, which will lead to better performance. At the same time, the respective managements will be able to apply their skills and experience towards the long-term growth of their respective companies.

In view of the aforementioned arrangement, ratings of ARM are being placed on 'Rating Watch-Developing'.

Allied Rental Modaraba (ARM) Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY19**	**FY20**	**FY21**
Cash and Bank Balances	51	93	117
Ijarah Rentals Receivable	1,236	1,100	1,168
Ijarah Assets	6,502	6,172	5,898
Total Assets	8,829	8,634	8,319
Creditors, Accrued & Other Liabilities	822	997	708
Borrowings	2,415	2,009	1,674
Certificate Capital	2,200	2,200	2,200
Equity	5,334	5,352	5,666
INCOME STATEMENT	**FY19**	**FY20**	**FY21**
Rental Income	3,694	3,299	3,577
Operation and Maintennace Income	127	132	137
Total Income	3,822	3,431	3,715
Operating Expenses	(2,907)	(2,562)	(2,861)
Gross Profit	915	869	854
Finance Costs	(288)	(300)	(163)
Profit (Loss) Before & After Tax	383	228	532
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**
Net Profit Margin (%)	10.0%	6.6%	14.3%
Provision for Impairment	187	237	199
Current Ratio	1.10	1.45	1.33
FFO	1,178.43	891.05	1,023.67
FFO to Total Debt	0.49	0.44	0.61
Gearing	0.45	0.38	0.30
Leverage	0.66	0.61	0.47
ROAA (%)	4.3%	2.6%	6.3%
ROAE (%)	7.2%	4.3%	9.7%

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		
17-June-22	A+	A-1	Rating Watch - Developing	Maintained
11-June-21	A+	A-1	Stable	Reaffirmed
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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