

RATING REPORT

Allied Rental Modaraba

REPORT DATE:

August 7, 2023

RATING ANALYSTS:

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Entity Ratings	Latest Rating	Previous Rating
<i>Long-term</i>	A+	A+
<i>Short-term</i>	A-1	A-1
<i>Rating Action</i>	Maintained	<i>Maintained</i>
<i>Rating Date</i>	August 7, 2023	June 17, 2022
<i>Rating Outlook</i>	Rating Watch- Developing	Rating Watch- Developing

COMPANY INFORMATION

Incorporated in 2006	External auditors: PWC A.F. Ferguson & Co.
Public Listed Company	Chairman: Mr. 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-banking Financial Companies (March 2020)
<https://docs.vis.com.pk/docs/NBFCs202003.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
<https://docs.vis.com.pk/docs/VISRatingScales.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 Faisal Ali serves as the Chairman of ARM and Managing Director at Allied Engineering & Services (Pvt) Ltd. Mr. Faisal 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

Allied Rental Modaraba (ARM) is a subsidiary of Allied Engineering & Services (Pvt.) Limited (AESL); the former is the market leader in generator rental business. The implicit support available from AESL, the authorized dealer of Caterpillar (CAT) products in Pakistan, remains a key rating driver. Assigned ratings are underpinned by adequate liquidity and maintained asset quality of the portfolio together with full provisions.

Last year pursuant to Finance Act 2021, whereby tax exemption of the Modaraba was withdrawn effective July 1, 2021, ARM did not recognize the deferred tax liability on ijarah assets and accordingly financial statements were duly qualified by the auditor, KPMG. In FY22, a change in auditor to A.F. FERGUSON & CO has been noted and in accordance with the requirements of IAS 12 "Income taxes", the deferred tax asset / liability on Ijarah assets, has been recognized by the Modaraba in its financial statements for the year ended June 30, 2021 & June 30, 2022. Accordingly, 2021 financial statements have been restated.

Key Rating Drivers

Ratings remain on Rating Watch on account of pending demerger.

The demerger stems from the changes made in the income tax of Modaraba Companies. 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. In absence of the tax advantage, demerger has been planned, whereby the existing logistics business of the Modaraba will be transferred to a newly incorporated entity-Allied Transport and Logistics (Private) Limited along with all its existing assets and liabilities and all the other remaining business segments along with their assets and liabilities will be transferred to Allied Engineering Management Company Limited, the existing management company of the Modaraba. The license of the Modarba management Company will be surrendered and the Company converted into ordinary private limited Company.

The Company has secured No Objection Certificates from all creditors and SECP and the petition has been filed with the Sindh High Court. Approval from the same is expected to be received by Sept –Oct 2023. On account of the pending demerger, ratings continue to remain on Rating Watch –Developing.

Revenue growth registered across all segments.

In FY22, rental revenues registered notable growth of 21% on the back of growth across all three segments, Logistics, Power and Construction Machines. The increase was contributed by higher

demand as well as higher rentals. Power segment continued to be the leading contributor with 41% of revenues followed by Construction Machine segment at 30% and remaining from Logistics segment. Client-wise concentration is fairly diversified with top 5 customers contributing 20% to total revenues. However, within the logistics segment concentration is higher with top 3 customers constituting 60% of revenues.

Future business opportunities: Rising prices and inflationary pressures expected to provide stimulus to rental business.

Given inflationary pressures and higher capital costs, there is increasing demand for rental business largely in the construction segment. The Company expects demand to remain robust in the logistics and construction/machinery segment. At the end of 9 months FY23, the Company recorded a revenue of Rs 3.8b.

Elevated credit risk

Credit risk remains heightened in the current macroeconomic environment. Inflationary pressures, import curtailments and high interest rate scenario have impacted business margins. Consequently, receivables buildup has been witnessed, albeit remains manageable. However, the Modaraba company has made adequate provisions as per IFRS 9.

Access to funds constrained on account of pending demerger.

On account of the pending demerger additional new funding has been constrained. Banks are reluctant to lend in the interim. In the meantime, Company has been utilizing its internal cash generation towards funding new asset additions. Consequently, buildup of payables against associated company has been recorded. Successful and timely execution of demerger will remain critical.

Allied Rental Modaraba (ARM)
Appendix I

FINANCIAL SUMMARY					
(amounts in PKR millions)					
<u>BALANCE SHEET</u>	FY19	FY20	FY21	FY22	Q3'23
Cash and Bank Balances	51	93	117	290	274
Ijarah Rentals Receivable	1,236	1,100	1,168	950	1,152
Ijarah Assets	6,502	6,172	5,898	5,947	6,236
Total Assets	8,829	8,634	8,319	8,307	8,845
Creditors, Accrued & Other Liabilities	822	997	708	1,126	1,144
Borrowings	2,415	2,009	1,674	1,106	1,010
Certificate Capital	2,200	2,200	2,200	2,200	2,200
Equity	5,334	5,352	4,882	4,936	5,440
<u>INCOME STATEMENT</u>	FY19	FY20	FY21	FY22	Q3 '23
Rental Income	3,694	3,299	3,577	4,324	3,664
Operation and Maintenance Income	127	132	137	151	143
Total Income	3,822	3,431	3,715	4,475	3,807
Operating Expenses	(2,907)	(2,562)	(2,843)	(3,235)	(2,719)
Gross Profit	915	869	872	1,240	1,087
Finance Costs	(288)	(300)	(163)	(131)	(132)
Profit (Loss) Before & After Tax	383	228	532	729	732
<u>RATIO ANALYSIS</u>	FY19	FY20	FY21	FY22	Q3 '23
Net Profit Margin (%)	10.0%	6.6%	14.3%	16.3%	19.2%
Provision for Impairment	187	237	199	296	N/A
Current Ratio (x)	1.10	1.45	1.34	1.24	1.45
Infection Ratio (x)	1.10	0.41	0.29	0.33	0.23
FFO* (x)	1,178.43	891.05	1,013.50	1,394.05	802.41
FFO to Total Debt* (x)	0.49	0.44	0.61	1.26	0.79
Gearing (x)	0.45	0.38	0.34	0.22	0.19
Leverage (x)	0.66	0.61	0.70	0.68	0.63
ROAA* (%)	4.3%	2.6%	6.4%	8.8%	11.4%
ROAE* (%)	7.2%	4.3%	10.1%	14.8%	18.8%

*Annualized

REGULATORY DISCLOSURES		Appendix II			
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				
	7-August-23	A+	A-1	Rating Watch-Developing	Maintained
	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.				
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