RATING REPORT

Sindh Modaraba

REPORT DATE:
January 20, 2017

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-Term
Entity	A+	A-1
Rating Date	*January 16, '17*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 2015	**External auditors:** M/s Grant Thornton Anjum Rahman, Chartered Accountants
Public Listed Modaraba	**Chairman:** Mr. Muhammad Bilal Shaikh
Key Certificate holders (with stake 5% or more):	**Chief Executive Officer:** Mr. M. Naimuddin Farooqui
Sindh Modaraba Management Limited Company – 95.2%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria: Modaraba Rating Scale (October 2002)
http://www.jcrvis.com.pk/images/JCR-Mod.pdf

Sindh Modaraba (SM)

OVERVIEW OF THE INSTITUTION

Sindh Modaraba (SM) has been incorporated under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The Modaraba started its operations in 2015 and is managed by Sindh Modaraba Management Limited (SMML).

Profile of CEO

Mr. M. Naim Faarooqui is a seasoned professional with over 32 years of experience in the financial services industry. Prior to joining Sindh Modaraba, he had served in the capacity of CEO in Sindh Leasing Limited and Sindh Bank Limited. He is an MBA from Texas Southern University, and also holds a Bachelor of Science Degree in Industrial Engineering from the University of Houston, USA

Profile of Chairman

Mr. Muhammad Bilal Sheikh is currently serving as the CEO of Sindh Leasing Company Limited (SLCL). Prior to joining SLCL he was President and CEO of Sindh Bank Limited. Mr. Sheikh is a seasoned banker with over 45 years of diversified experience in banking sector. He has headed several banks/financial institutions in the last 15 years.

RATING RATIONALE

Sindh Modaraba (SM) is managed by Sindh Modaraba Management Limited (SMML), which in turn, is a wholly owned subsidiary of Government of Sindh. The primary business activities of the Modaraba include Ijarah, Diminishing Musharakah and Murabaha financing. The Modaraba is listed on Pakistan Stock Exchange and its registered office is located in Karachi. At present, SM operates through two branches; one each in Karachi and Lahore.

Rating Drivers

- **Sponsor Support:** The assigned ratings derive strength from the ownership by the Government of Sindh (GoS) of SMML and its strong support exhibited by the recent provision of interest free loan amounting to Rs. 500m to the Modaraba and bearing of expenses by the sponsor amounting to Rs. 7.2m owed by the Modaraba to the management company. Furthermore, the Modaraba also shares resources with another entity owned by the Government of Sindh. GoS holds approximately 95.2% of SM's certificates through SMML.

- **Corporate Governance:** A sound corporate governance framework exists in the company as indicated by the presence of seasoned professionals on the board. Composition of the board conforms to the best corporate practices, as one-third of the board members are independent. One casual vacancy exists on the board. Moreover, five committees also exist at board level in order to ensure effective oversight.

- **Portfolio Composition:** Portfolio of SM registered sizeable growth due to impact of full year of operations. Diminishing Musharaka financing represented 59% of the total portfolio, while the remaining portfolio constituted Ijarah financing. Presently, asset quality indicators remain sound; however, these will be tested over time as the portfolio seasons and lending activities grow further. Moreover, portfolio features concentration both in terms number of clients and sectoral lending. Credit policy of the company has restricted investment in any single sector to 30% of the total portfolio in order to limit the credit risk, while management may need to address client-wise concentration risk going forward.

- **Funding and Liquidity:** Currently, no interest bearing debt exists on the books of the company and majority growth in the portfolio is funded through equity. Capitalization level of the company continues to remain strong. With the aim of further enhancing its portfolio, the Modaraba has obtained an interest free loan of Rs. 500m from its sponsor and the management also intends to obtain additional funding by issuing a Sukuk amounting to Rs. 1b in the near future. In view of the same, leverage indicators of the company are expected to trend upwards; however, the same are expected to remain at manageable levels. Liquidity profile of the company is considered sound given sizeable proportion of liquid assets in relation to total liabilities.

- **Profitability:** Profitability of the company depicted sizeable growth primarily on the back of volumetric growth in portfolio and higher average return on portfolio. Income generated from financing portfolio remained primary source of income for the company given no investment portfolio of the company. Furthermore, the company has mitigated exposure to market risk by restricting direct or indirect investment in listed or unlisted equity securities. Operating expenses of the company remain at manageable levels as indicated by moderate efficiency ratio. However, expense base may increase with higher volume of business and when shared resources are charged to the Modaraba. Going forward, profitability is likely to depict an improving trend if the company is able to maintain sound asset quality coupled with effective utilization of funds while pursuing its growth targets.

Outlook: Going forward, ratings of the company would be underpinned given moderate level of leverage, good quality of credit portfolio, development of strong credit risk assessment and internal control systems.

Sindh Modaraba (SM) Appendix I

FINANCIAL SUMMARY		*(amounts in PKR millions)*
BALANCE SHEET	**June 30, 2016**	**June 30, 2015**
Ijarah Rentals Receivable	1.7	0.7
Ijarah Assets	208.3	46.0
Current portion of Diminishing Musharaka	26.0	10.7
Long term portion of Diminishing Musharaka	224.3	106.5
Total Assets	515.4	478.4
Creditors, Accrued & Other Liabilities	9.6	9.5
Borrowings	-	-
Total liabilities	42.3	18.8
Equity	473.1	459.6
INCOME STATEMENT	**June 30, 2016**	**June 30, 2015**
Income from Diminishing Musharaka	14.9	3.0
Ijarah rental	59.1	0.7
Bank deposits	1.3	0.5
Operating Expenses	17.2	4.5
Other income	7.8	0.08
Profit (Loss) Before & After Tax	20.7	9.6
RATIO ANALYSIS	**June 30, 2016**	**June 30, 2015**
Efficiency (%)	20.5%	19.5%
Gearing (x)	-	-
Leverage (x)	0.09	0.04
ROAA (%)	4.2%	2.0%
ROAE (%)	4.5%	2.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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	Sindh Modaraba
Sector	Modaraba
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Jan-16-2017	A+	A-1	Stable	Initial