

RATING REPORT

Sindh Modaraba

REPORT DATE:

January 4, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	Dec 29, '17		Jan 16, '17	

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 – 94.4%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Non-Banking Financial Companies (October 2017)
<http://jcrvis.com.pk/docs/NBFCs%20201710.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 33 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 Management Limited (SMML), a wholly owned subsidiary of Government of Sindh (GoS), is the management company of Sindh Modaraba (SM). SM is primarily engaged in providing Sharaiah compliant financing facilities, including Ijarah, Diminishing Musharakah and Murabaha financing, to customers. The Modaraba is listed on Pakistan Stock Exchange and its registered office is located in Karachi. The company operates through a network of two branches; one is located in Karachi and other is based in Lahore.

Rating Drivers

- **Sponsor Support:** The assigned ratings incorporate sound profile of the sponsor, GoS, which owns approximately 94.4% of SM's certificates through SMML. Sponsors have demonstrated both technical and financial support for SM in the past; GoS injected additional equity of Rs. 500m in SMML in FY17, which has in turn provided an interest free loan amounting to Rs. 500m to the Modaraba. Moreover, SM acquires technical expertise in IT on need basis from resources deployed in another entity owned by the GoS. JCR-VIS expects sponsor support to continue in future.
- **Corporate Governance:** The ratings reflect presence of sound corporate governance framework at SM. Board of Directors (BoD) and senior management include seasoned professionals. Board composition is line with best corporate governance practices as more than one-third of the Board constitutes independent directors. Management filled the outstanding casual vacancy on the board during the outgoing year. Five board committees also exist to maintain adequate oversight. Policy framework of SM is considered adequate.
- **Financing portfolio:** Financing portfolio (net of lease key money) depicted sizeable growth of 40.7% in FY17 vis-à-vis the preceding year. In line with the trend observed across the industry, management opted to reduce the Ijarah portfolio due to possible impact of service tax. Hence, growth in financing portfolio was observed on account of higher Diminishing Musharaka portfolio. Financing portfolio of the company depicted moderate increase in Q1'18. Given the management's strategy of maintaining a clean rather than a large portfolio, asset quality indicators remained sound with no Non-Performing Loans (NPLs) on its books. Improvement was observed in sector-wise lending in FY17; however, room for diversification exists in the same in order to further mitigate credit risk. Similarly, management may focus on reducing client-wise concentration as the portfolio growth progresses, going forward.
- **Funding and Liquidity:** Capitalization indicators of SM are considered sound as the company has not acquired any interest bearing debt. SM has obtained an interest free loan of Rs. 500m from SMML, which is repayable at the discretion of SM. The same is classified as a part of the equity as per latest regulations. Liquidity profile of the company is manageable given the sizeable proportion of liquid assets in relation to total liabilities and no overdue installments outstanding.
- **Profitability:** Profitability of SM increased in FY17 and Q1'18 vis-a-vis the corresponding periods, primarily on account of higher income from financing portfolio. Income from Diminishing Musharaka increased on the back of growth in size of Diminishing Musharaka portfolio; whereas Ijarah income was reported higher on account of income received from Ijarah leases booked in the previous years. Efficiency ratio has also depicted improvement due to relatively higher growth in recurring income in relation to expenses. In view of the growth strategy pursued of the management, profitability may depict further improvement going forward provided that prudent underwriting practices are maintained by the management.

Sindh Modaraba (SM)
Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	30-Jun-17	30-Jun-16	30-Jun-15
Ijarah Rentals Receivable	3.5	1.7	0.7
Ijarah Assets	136.4	208.3	46
Current portion of Diminishing Musharaka	76.1	26	10.7
Long term portion of Diminishing Musharaka	419.1	224.3	106.5
Total Assets	1,028.6	515.4	478.4
Creditors, Accrued & Other Liabilities	12.0	9.6	9.5
Borrowings	-	-	-
Lease Key Money	32.8	32.7	9.3
Total liabilities	44.9	42.3	18.8
Equity	983.7	473.1	459.6
<u>INCOME STATEMENT</u>	30-Jun-17	30-Jun-16	30-Jun-15
Income from Diminishing Musharaka	23.3	14.9	3
Income from Ijarah rental	89.6	59.1	0.7
Income from Bank deposits	19.6	10.3	19.1
Operating Expenses	24.1	17.2	4.5
Other income	0.5	7.8	0.08
Profit (Loss) Before & After Tax	26.3	20.7	9.6
<u>RATIO ANALYSIS</u>	30-Jun-17	30-Jun-16	30-Jun-15
Efficiency (%)	18.2%	20.5%	19.5%
Gearing (x)	-	-	-
Leverage (x)	0.01	0.02	0.02
ROAA (%)	3.2%	4.2%	2.0%
ROAE (%)	3.4%	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

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

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.

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.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Sindh 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				
	29-Dec-2017	A+	A-1	Stable	Reaffirmed
	16-Jan-2017	A+	A-1	Stable	Initial
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.				
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