

RATING REPORT

Sindh Modaraba

REPORT DATE:

February 28, 2019

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	Feb 22, '19		Dec 29, '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): Sindh Modaraba Management Limited - 94.4%	Chief Executive Officer: Mr. M. Naimuddin Farooqui

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 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.

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

RATING RATIONALE

The assigned ratings of Sindh Modaraba (SM) derive strength from its indirect ownership by the Government of Sindh (GoS) through Sindh Modaraba Management Limited. Strong sponsor support has been demonstrated through both financial and technical assistance. The company benefits from the experience of its Board members. All credit appraisals are approved by the Chairman and CEO before disbursement.

Key Rating Drivers:

Business Mix: Primary business activities of SM include Ijarah, Diminishing Musharakah and Murabaha financing. In line with the Board's conservative stance, financing portfolio of the company has increased at a slow pace. Management anticipates the portfolio to grow at a similar pace in the coming years, as per the Board's instructions. Diminishing Musharakah continues to represent a large chunk of financings followed by Ijarah. Murabaha financing at SM was recently introduced for corporate clients. In order to further grow its portfolio, SM had planned to enter into GoS's Karachi intra-city and inter-city transport schemes. However, legal requirements were incomplete resulting in delay of the project. Management is hopeful schemes related to this project would be implemented by GoS in the coming years. In anticipation of the same, the government had already placed an amount of Rs.500m with the company.

Infection Levels: Given the management's strategy of maintaining a clean rather than a large portfolio, asset quality indicators remained sound with minimal Non-Performing Loans (NPLs) on its books. During 2018, the company reported doubtful debts of a client belonging to the telecom industry. While provisioning has been taken on a prudent basis, management is actively working on recovering the same. Furthermore, management continues to focus on tapping into new sectors as portfolio growth progresses; sector-wise lending improved during FY18.

Funding and Capitalization: Capitalization indicators of SM are considered sound as the company has not mobilized any interest bearing debt. Along with a sizeable equity, 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 comfortable given the sizeable proportion of liquid assets in relation to total liabilities.

Profitability: With a higher financing portfolio vis-à-vis last year, the company was able to earn an improved top line. With an increasing interest rate scenario, the company anticipates revenue base of SM to grow. Efficiency ratio has also remained at comfortable levels for the company over the years. In view of the growth strategy pursued of the management, profitability may depict further improvement provided that prudent underwriting practices are continued by the management.

Sindh Modaraba (SM)

Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
<u>BALANCE SHEET</u>				
Ijarah Rentals Receivable	6.8	3.5	1.7	0.7
Ijarah Assets	61.3	136.4	208.3	46
Current portion of Diminishing Musharaka	208.4	76.1	26	10.7
Long term portion of Diminishing Musharaka	407.0	419.1	224.3	106.5
Total Assets	1,569.4	1,028.6	515.4	478.4
Creditors, Accrued & Other Liabilities	524.6	12.0	9.6	9.5
Borrowings	-	-	-	-
Lease Key Money	28.9	32.8	32.7	9.3
Total liabilities	553.5	44.9	42.3	18.8
Equity	1,015.8	983.7	473.1	459.6
<u>INCOME STATEMENT</u>				
Income from Diminishing Musharaka	55.0	23.3	14.9	3
Income from Ijarah rental	75.7	89.6	59.1	0.7
Income from Bank deposits	14.2	19.6	10.3	19.1
Operating Expenses	28.8	24.1	17.2	4.5
Other income	1.0	0.5	7.8	0.08
Profit (Loss) Before & After Tax	52.4	26.3	20.7	9.6
<u>RATIO ANALYSIS</u>				
Efficiency (%)	18.8%	18.2%	20.2%	19.3%
Gearing (x)	-	-	-	-
Leverage (x)	0.55	0.05	0.09	0.04
ROA (%)	3.3%	2.6%	4.0%	2.0%
ROE (%)	5.2%	2.7%	4.4%	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				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	02/22/2019	A+	A-1	Stable	Reaffirmed
	12/29/2017	A+	A-1	Stable	Reaffirmed
	01/16/2017	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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