

## RATING REPORT

### Sindh Modaraba

**REPORT DATE:**

September 6, 2023

**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	September 6, 2023		June 30, 2022	
Rating Action	Reaffirmed		Reaffirmed	

**MODARABA INFORMATION**

Incorporated in 2015	<b>External auditors:</b> Baker Tilly Mehmood Idrees Qamar Chartered Accountants
Public Listed Modaraba	<b>Chairman:</b> Mr. Waseem Mehdi Syed
<b>Key Certificate holders (with stake 5% or more):</b> Sindh Modaraba Management Limited - 94.36%	<b>Chief Executive Officer:</b> Mr. Ishfaque Ahmed

**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>

## 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. Mehdi is currently serving as the Chairman and Independent Director of SM. Mr. Mehdi has over 40 years of experience within Financial sector. He is also Independent Director and Chairman of the Board of Directors of Summit Bank. Mr. Mehdi holds Master Degree from Karachi University and Diploma in Banking (DAIBP from) Institute of Banking in Pakistan.*

## RATING RATIONALE

Headquartered in Karachi, Sindh Modaraba (SM) was incorporated in 2015. It is managed by Sindh Modaraba Management Limited (SMML), which is owned by the Government of Sindh (GoS). SM is a publicly listed Modaraba on the Pakistan Stock Exchange and offers Shariah Compliant Islamic financing to its customers. The Modaraba operates from Head office in Karachi and one branch in Lahore.

During 2023, new Chief executive, Mr. Ishfaq Ahmed was appointed. Mr. Ishfaq Ahmed has about 35 years of experience with the last 10 years in Sindh Bank as Executive Vice President - Group Business Head. He has a Master's Degree in Economics, Diploma in Banking and a Bachelor's Degree in Law.

**Key Rating Drivers**

**Sponsor support through majority ownership of Government of Sindh (GoS) remains a key rating driver.**

Majority ownership of Sindh Modaraba rests with the Government of Sindh which is considered an important factor in rating assessment. The GoS holds 94.3% shares in Sindh Modaraba through SMML, whereas, the local public, owns just 5.7% certificates. Sponsor support both technical and financial provides comfort.

**Measured growth in financing portfolio**

SM continued to grow its financing portfolio by 3.6% in FY2022 and 3.1% in 9MFY2023. The growth has remained steady with management taking a cautious view on financing front amidst heightened credit risk in the economy. The Modaraba focused on channeling the excess liquidity into building up the investment portfolio for optimal returns within acceptable risk thresholds. Financing portfolio registered at Rs.843.7 million in 2022 which is a jump of 3.6% from the corresponding financial year when it was Rs.814.6 million and further to Rs. 869.83 million at the end of third quarter of FY2023.

Credit risk profile of the financing portfolio noted improvement with concentration in sugar 11.35% (FY21: 18.68%) and construction sector 16.3% (FY21: 23.5%) declining while increasing exposure in the health segment to 22% of the portfolio. Sugar, Construction and Health together make up 50% of the portfolio. Nevertheless, per party risk exposure remains on the higher side.

**Improved recoveries noted, albeit credit risk remains high.**

Between FY21 and 9MFY23, SM has made notable recoveries. The increase in provisioning was primarily prompted by time bound provisioning against existing non-performing names, namely in the sugar & poultry sector. General provisioning increased to Rs. 3.9m from Rs 3.6m while specific provisioning increased to Rs. 54m up from Rs. 41m. Recently, the Company also made a Rs 2m reversal during the year FY22. Nevertheless, credit risk of the financing portfolio remains heightened due to external and internal vulnerabilities impacting business profits. Moreover, we expect additional provisioning pressure from the existing NPL portfolio which may continue to constrain future profitability. Maintenance of asset quality indicators remains key.

**Net profitability is impacted by tax changes.**

With the income tax on Modaraba profits becoming effective July 1, 2021, the company recorded a tax expense of Rs. 34 mln leading to a drop in net profitability in FY22, despite 32.80% higher pretax profitability compared to previous year. The tax change implication will continue to constrain future profitability although hike in interest rates may provide higher income.

**Liquidity and capitalization profile provides comfort.**

Taking a cautious view on the financing portfolio, SM has channeled the liquidity into short term investment portfolio which has improved the liquidity profile. As of March 31, 2023, investment portfolio stood at Rs. 807.43 mln. The Modaraba capitalization profile remains supported by sponsor loan and support from GoS.

**Sindh Modaraba (SM)**
**Appendix I**

FINANCIAL SUMMARY			(PKR millions)			
BALANCE SHEET	FY18	FY19	FY20	FY21	FY22	9MFY23
Ijarah Rentals Receivable	6.8	0.0	-			
Ijarah Assets	61.3	10.5	7.2	5.0	-	-
Current portion-Diminishing Musharaka	208.4	249.1	270.8	367.3	338.1	370.8
Long term portion-Diminishing Musharaka	407.0	407.1	514.0	447.3	505.6	499.0
Total Financing portfolio	676.7	666.7	791.9	819.6	843.7	869.8
Short Term Investments	130.0	160.0	-	320.0	320.0	710.0
Cash and bank balances	670.7	788.6	883.7	475.5	494.2	99.8
Long Term Loan from Sponsor	-	500.0	1,000.0	1,000.0	1,000.0	1,000.0
Total Assets	1,569.4	1,639.3	1,706.2	1,657.2	1,684.6	1,727.9
Creditors, Accrued & Other Liabilities	524.6	570.7	90.6	26.4	33.3	39.2
Lease Key Money	28.9	5.3	5.0	5.0	-	-
Total liabilities	553.5	576.2	96.2	32.1	38.6	40.2
Paid up Capital	450.0	450.0	450.0	450.0	450.0	450.0
Equity excluding sponsor loan	1,015.8	563.0	610.0	625.1	645.9	687.8
<b>INCOME STATEMENT</b>						
Income from Diminishing Musharaka	55.0	92.4	101.9	79.0	94.1	117.7
Income from Ijarah financing	10.7	4.7	0.8	0.6	-	-
Income from Murabaha finance	0.5	-	-	-	-	-
Income from Bank deposits	14.2	15.9	83.3	43.8	46.7	31.7
Term Deposit Receipts	8.4	12.0	2.1	14.8	26.2	50.5
Operating Expenses	28.9	32.1	39.2	46.4	40.9	50.4
Other income	1.0	0.6	3.4	0.3	0.6	1.1
Profit/ (Loss) Before Tax	52.4	81.2	107.9	75.8	100.7	134.9
Profit/ (Loss) After Tax	52.4	81.2	107.9	75.8	66.3	95.8
<b>RATIO ANALYSIS</b>						
Current Ratio (x)	2.0	2.1	12.2	37.4	30.4	30.5
Gross Infection	0.5%	0.5%	4.0%	5.5%	6.9%	6.5%
Efficiency (%)	32.3%	25.6%	20.9%	33.6%	24.5%	25.2%
ROAA (%)	4.0%	5.1%	6.4%	4.5%	4.0%	5.6%
ROAE (%)	5.2%	7.8%	8.1%	4.7%	4.1%	5.7%

REGULATORY DISCLOSURES		Appendix II			
<b>Name of Rated Entity</b>	Sindh Modaraba				
<b>Sector</b>	Modaraba				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	09/06/2023	A+	A-1	Stable	Reaffirmed
	06/30/2022	A+	A-1	Stable	Reaffirmed
	06/29/2021	A+	A-1	Stable	Reaffirmed
	06/30/2020	A+	A-1	Stable	Reaffirmed
	02/22/2019	A+	A-1	Stable	Reaffirmed
	12/29/2017	A+	A-1	Stable	Reaffirmed
01/16/2017	A+	A-1	Stable	Initial	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>S. No</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Ishfaque Ahmed	CEO	4 August 2023	
	2	M. Adnan Shakeel	CFO & CS		