

SINDH MODARABA

Analyst:

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RATING DETAILS

RATINGS CATEGORY	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
ENTITY	AA-	A1+	A+	A1
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Upgraded		Reaffirmed	
RATING DATE	December 24, 2025		November 13, 2024	

Shareholding (5% or More)

Sindh Modaraba Management Limited - 94.33%

Other Information

Incorporated in 2015

Public Listed Modaraba

Chairperson: Mr. Waseem Mehdi Syed

Chief Executive Officer: Mr. Abdul Rauf Chandio

External Auditor: Grant Thornton Anjum Rahman Chartered Accountant

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Non-Bank Financial Companies

<https://docs.vis.com.pk/Methodologies%202024/NBFCs202003.pdf>

Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Rating Rationale

The ratings assigned to Sindh Modaraba ("SINDM" or "the Modaraba") reflect the strong sponsor profile of the Government of Sindh (GoS), which holds a 94.3% shareholding through Sindh Modaraba Management Limited (SMML). The most recent demonstration of explicit sponsor support is the approval of PKR. 2bn in equity allocated towards Sindh Modaraba of which PKR 1bn would be injected in the current financial year. The ratings also incorporate the financial strength and management expertise of SMML, with liquidity profile being sound and capitalization profiles set to strengthen further. Rating drivers include growth in gross portfolio during FY25, supported by an improved macroeconomic environment and lower policy rates. Asset quality strengthened as reflected by a decline in NPLs within the Diminishing Musharakah (DM) portfolio, while the recently generated short-term Murabaha financing portfolio further supports credit quality, carrying no NPLs to date.

On the other hand, the substantial reduction in policy rates and rising operating expenses will exert pressure on profitability; while sustaining earnings in a low-rate environment will pose challenges, the recently announced equity injection and growth that can materialize as a result of it, will be supportive of earnings generation ability.

Company Profile

Sindh Modaraba ('SINDM' or the 'Modaraba') has been floated under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed thereunder and is managed by Sindh Modaraba Management Limited (the Management Company), which is a wholly owned by Government of Sindh. The Modaraba is listed on Pakistan Stock Exchange Limited (PSX).

The Modaraba offers a diversified range of Shariah-compliant financing products. Its portfolio includes **Murabaha**, where assets are procured and sold to clients at cost plus a disclosed profit margin, and **Ijarah (leasing)**, under which assets are leased to clients against rentals while ownership remains with the Modaraba. SINDM also extends **Diminishing Musharaka**, a co-ownership model where the client gradually acquires Modaraba's share in an asset, as well as **Salam**, a forward-sale contract allowing advance payments for goods to be delivered at a future date. Additionally, the Modaraba provides **House Financing** on a Diminishing Musharaka basis, enabling clients to progressively attain ownership of residential property. Collectively, these offerings provide clients with access to asset financing, leasing, and trade-related funding solutions in compliance with Islamic principles.

Sponsor Profile

Sindh Modaraba Management Limited (SMML) has been incorporated in Pakistan as a public limited Company by share under the Companies Ordinance, 1984 on November 28, 2013. SMML is wholly owned by the Government of Sindh. The principal activity of the company is to engage in floatation and management of Modaraba and to function as a Modaraba Management Company within the meaning of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance 1980.

Management and Governance

BOARD STRUCTURE

Table 1: Board of Directors

BOARD OF DIRECTORS	STATUS
Mr. Waseem Mehdi Syed	Chairman/ Independent Director
Mr. Fayaz Ahmed Jatoi	Non-Executive Director
Mr. Sami ul Haq Khilji	Non-Executive Director
Mr. Ejaz Akhtar Ansari	Independent Director
Mr. Kamal Ahmed	Non-Executive Director
Ms. Naila Asad Shaikh	Non-Executive Director
Mr. Abdul Rauf Chandio	CEO/ Executive Director

The Board comprises seven members, including six males and one female director. Independence representation needs improvement in line with best practice. The Chairman and Chief Executive Officer hold separate positions. Directors have confirmed that none of them serve on more than the allowed number of boards of public sector or listed companies. The Board met at least four times during the year, with notices, agendas, and working papers circulated at least seven days in advance. Minutes were properly recorded and circulated to members.

During CY24 & CY25, five out of seven directors completed the director certification program. The remaining members have been advised to complete certification. The Board reviews the performance of senior management annually, approves financial statements, reviews related-party transactions, and ensures preparation of the directors' report in line with required disclosures. A Code of Conduct is in place, and systems exist for grievance handling and ethical compliance. Policies on conflict of interest, anti-corruption, equal opportunity, and procurement are implemented. Based on these practices, the Board composition and functioning reflect adherence to corporate governance standards.

BOARD COMMITTEES

The Board has constituted key governance committees, including the Audit Committee, Human Resource Committee (HRC), Nomination Committee (NC), Procurement Committee, and the Board Risk Management Committee (BRMC), each mandated to oversee critical areas of control, compliance, and risk oversight. During FY25, the Audit Committee met four times, in line with its quarterly meeting requirement,

reflecting consistent oversight of financial reporting, internal controls, and audit processes. The BRMC also met quarterly, demonstrating active engagement in risk identification, credit portfolio monitoring, and compliance with regulatory and Shariah-related risk guidelines. The HRC, NC, and Procurement Committees convened as and when required, and fulfilled their roles in reviewing appointments, remuneration structures, Board composition, training needs, and major procurement decisions. The timely circulation of agendas, maintenance of quorum requirements, documented minutes, and regular follow-up on committee decisions collectively indicate an operational governance structure where committees function with clear mandates, adequate frequency, and effective oversight—supporting an overall assessment of governance processes as structured and responsive.

SHARIA COMPLIANCE:

Mufti Syed Zahid Siraj is currently serving as the Shariah Advisor to SINDM.

For the year ended June 30, 2025, the Shariah review covered overall operations, policies, and transactions of SINDM in accordance with Shariah Governance Regulations, 2023, S.R.O. 2310(I)/2022 issued by SECP, and relevant Shariah standards. The scope included financing products, contracts, investments, and related manuals. An external Shariah audit was also conducted during the year as per SECP requirements.

The Shariah Advisor confirmed that all transactions, documentation, and procedures were in conformity with Shariah principles, SCSAM 2012, and applicable regulations. No earnings from non-permissible sources were identified, and all accounts were maintained with Islamic Banking Institutions or approved Islamic branches. No material Shariah non-compliance events were noted, and minor observations, if any, were rectified accordingly.

Recommendations included introducing new Shariah-compliant financing products, extending Diminishing Musharakah-based staff facilities, enhancing employee benefits through Islamic financing and Takaful coverage, and increasing Shariah awareness and training programs. Overall, the operations of Sindh Modaraba during FY25 were declared by the Shariah Advisor to have been conducted in accordance with Shariah principles and regulatory requirements.

ESG INITIATIVES.

The Modaraba has outlined a structured ESG and sustainability framework that integrates ethical governance, social responsibility and environmental stewardship across its operations. ESG considerations form part of the Modaraba's decision-making processes and are aligned with evolving regulatory developments in sustainability, climate-related risk management and Shariah-based principles of fairness, transparency and accountability. The Board continues to refine Modaraba's ESG approach in response to stakeholder expectations and emphasizes alignment between business objectives, values and broader community impact.

Environmental initiatives focus on minimizing resource usage through responsible consumption practices, waste reduction and water conservation. The Modaraba is prioritizing increased digitalization to reduce paper usage and improve electricity conservation across offices, supporting the wider transition toward a low-carbon operating environment.

On the social front, the Modaraba positions itself as a responsible corporate citizen and incorporates Shariah principles in conducting business in a socially responsible and ethical manner. The Modaraba supports the communities and cultural environments in which it operates and maintains high standards of integrity in daily operations and governance practices. It also emphasizes respect for human dignity and rights across all relationships, with focus on acknowledging the values, customs and cultures of individuals and groups.

AUDITOR OPINION:

Auditor for FY25 was changed from Baker Tilly Mehmood Idrees Qamar, Chartered Accountants to M/s Grant Thornton Anjum Rehman, Chartered Accountants which is a QCR Rated Firm and categorized as 'Category A' on SBP's Panel of Auditors. The auditor issued **an unqualified opinion on the financial statements**.

Business Risk

INDUSTRY UPDATE:

The NBFC sector expanded strongly in FY25, with assets rising 36% to PKR 5.40 trillion by March 2025. Growth was broad-based, led by mutual funds (over two-thirds of sector assets), followed by modarabas and investment finance companies, while leasing and housing finance remained marginal.

Modarabas expanded through Islamic structures, and non-bank microfinance institutions leveraged digital platforms to extend outreach. Lower borrowing costs from monetary easing supported credit flows and gradual demand recovery after prolonged high rates, though fiscal consolidation and weak private investment capped expansion. SECP facilitated growth through digital onboarding, streamlined licensing, and enhanced sector oversight. Fiscal measures weighed in on disposable incomes and corporate investment appetite, though some budgetary adjustments (withdrawal of minimum rent provision, rationalized bank taxation) supported stability.

Looking ahead, NBFC growth will hinge on macroeconomic recovery, aligned with growth in the financial system. Improved capitalization and stronger governance frameworks will contribute to vesting investor confidence.

OPERATIONAL UPDATE

SINDM's current portfolio of PKR 1.7bn (FY24: PKR 791.7mn; FY23: PKR 919.5mn) is largely concentrated in Diminishing Musharakah (87.5%), followed by Murabaha (12.5%). The portfolio remains largely secured, providing buffer against credit losses. The Diminishing Musharakah (DM) segment constitutes financing provided to individual and corporate clients for periods ranging from 3 to 20 years (FY24: 3 to 20 years) which is secured against mortgage of property, lien on title documents and charge on assets. Mostly such financing is provided for Plant and Machinery, followed by vehicles (Private & Commercial).

On the other hand, Murabaha financing caters to short-term needs of corporate clients. These have a tenor of 9 months and are secured against pledge and personal guarantee of a directors. The Modaraba completely divested its short-term investments and channeled these additional funds towards portfolio expansion. Nevertheless, the top 20 clients comprise 88.04% (FY24: 83.59%) of the total portfolio for FY25 signifying inherent concentration risk. Going forward, SINDM will continue its cautious lending approach to maintain credit quality of its portfolio.

Sector-wise breakdown of gross portfolio shows major concentration across Sugar (FY25: 37%; FY24: 12.2%), Health (FY25: 14.4%; FY24: 18.7%), Chemical (FY25: 9.6%; FY24: 12.3%), Textile (FY25: 6.4%; FY24: 5.0%) and Metal & Steel (FY25: 5.9%; FY24: 0.3%). The top 5 sectors of SINDM constitute 73.3% (FY24: 63.4%) of the gross portfolio. Going forward, SINDM will increase exposure in SME, renewable energy and Agri-Based Sectors.

GROSS PORTFOLIO	FY23	%	FY24	%	FY25	%
Sugar	64.0	7.0%	96.5	12.2%	631.3	37.0%
Health	197.0	21.4%	148.4	18.7%	245.8	14.4%
Chemical & Allied (Other)	35.4	3.9%	97.5	12.3%	163.3	9.6%
Textile	62.8	6.8%	40.0	5.0%	108.4	6.4%
Metal and Steel	2.3	0.2%	2.1	0.3%	100.0	5.9%
Pharmaceutical	12.9	1.4%		0.0%	75.0	4.4%
Individual	45.4	4.9%	47.0	5.9%	58.8	3.4%
Construction	177.2	19.3%	98.7	12.5%	56.8	3.3%
Transport	57.4	6.2%	43.8	5.5%	48.8	2.9%
Oil & Gas - Oil Marketing	11.3	1.2%	9.9	1.2%	46.0	2.7%
Energy	42.2	4.6%	35.0	4.4%	38.8	2.3%
Poultry	51.2	5.6%	47.8	6.0%	37.8	2.2%
Printing & Packaging		0.0%		0.0%	33.9	2.0%
Other Services	62.1	6.7%	5.0	0.6%	33.9	2.0%
Food & Beverages	56.3	6.1%	43.8	5.5%	15.3	0.9%
Others	18.9	2.1%	61.3	7.7%	9.0	0.5%
Electric & Power		0.0%	15.1	1.9%	1.8	0.1%
Security Services	23.1	2.5%		0.0%		0.0%
Brokerage	0.1	0.0%		0.0%		0.0%
Total	919.5		791.7		1,704.5	

Given the significant decline in policy rate and revival of economic activity, SINDM made significantly higher disbursements of PKR 1.5bn in 2025(FY24: PKR 273.9mn). Geographically, these disbursements are mostly directed towards Sindh region in the rural areas with plans to

expand operations in adjoining regions. Going forward, as economy stabilizes, consumer confidence will increase resulting in higher private sector investments that will subsequently drive the portfolio growth. As per management, additional equity injection of PKR 2.0bn has been approved by Honorable Sindh Cabinet on 1st December 2025, of which, PKR 1bn would be injected in the current financial year.

CREDIT APPROVAL PROCESS

SINDM has a structured due diligence framework for extending any financing facility. The process begins with comprehensive KYC verification, which includes confirmation of the client's registered and operating addresses, validation of incorporation documents, CNIC copies, Memorandum and Articles of Association, NTN certificate, Forms A and 29, board resolution/mandate, audited financial statements, and company search reports. Details of principal beneficial owners, their CNICs, residential addresses and shareholdings are obtained, while the Modaraba assesses the source of wealth, source of repayment, and screens the client and its key individuals for PEP status in line with AML/CFT requirements. For corporate clients, the nature of business, legal constitution, and group linkages are documented to ensure regulatory compliance and transparency.

Following KYC, each financing request is evaluated against Prudential Regulations, per-party and per-group exposure limits, and internal credit policy thresholds. Facility-specific documentation is reviewed for completeness, and in the case of Murabaha, a dedicated Shariah compliance checklist is applied to confirm execution of the Master Murabaha Agreement, Agency Agreement, procurement instructions, purchase confirmations, delivery evidence, and acceptance of goods. The Modaraba then conducts a detailed credit appraisal using its internal rating model, which assigns 50% weight to quantitative factors—profitability ratios, liquidity indicators, cash flow strength, solvency, and leverage—and 50% weight to qualitative factors such as macroeconomic conditions, industry trends, governance quality, market positioning, repayment capacity, collateral adequacy, and tenor risks. Each factor is scored on a scale of Poor (1), Moderate (3) or Good (5), leading to a consolidated internal credit grade.

The credit proposal, including the client's risk rating, facility structure, pricing, security, exposure analysis, regulatory compliance status, and risk mitigants, is then submitted for approval through the designated authority matrix. Only cases that satisfy regulatory requirements, Shariah standards, and internal risk acceptance criteria are recommended for sanction. This multilayered approach ensures that all financing decisions are supported by documented due diligence, structured analysis, and independent Shariah validation.

PROFITABILITY

Despite significant business expansion during the review period as evidenced by growth in portfolio, income from operations increased marginally to PKR 217.3mn (FY24: PKR 207.4mn); the moderate increase was an outcome of decline in policy rates. Additionally, income from Bank Deposits and Term Deposits also declined to PKR 124.5mn (FY24: PKR 199.9mn). Internal rate of return (IRR) moderated to 15.53% (FY24: 24.29%) in FY25.

Moreover, the expansion in portfolio was accompanied by a corresponding increase in the operating expenses to PKR 87.4mn (FY24: PKR 64.6mn) which was an outcome of strengthening of marketing, legal and corporate affairs functions to supplement growth. SINDM also recorded a reversal of PKR 4.8mn (FY24: PKR 2.9mn) in FY25. Profit before Management Fee and Taxation of PKR 267.1mn (FY24: PKR 346.3mn) was recorded against which, a management fee of PKR 26.7mn (FY24: PKR 34.6mn) was charged. This management fee was charged at 10% of profits before taxation. Consequently, the Modaraba's Profit before Tax (PBT) and Profit after Tax (PAT) declined to PKR 236.4mn (FY24: PKR 306.5mn) and PKR 180.1mn (FY24: 201.3mn) respectively at end-June'25.

As of Sept'25, Modaraba reported a lower income of PKR 80.4mn (1QFY25: PKR 97.9mn), aligning with a decline in policy rates. Administrative expenses also notched upwards to supplement expansion strategies. Consequently, SINDM reported a lower PBT and PAT of PKR 51.2mn (1QFY25: PKR 69.4mn) and PKR 36.4mn (1QFY25: PKR 49.3mn) respectively for 1QFY26. With recapitalization, and invigorated growth, profitability prospects stand improved for FY2026, given also that market prices for exposures are not likely to decline much further, except marginally, in the current year.

Financial Risk

ASSET QUALITY

Asset quality of the Modaraba improved notably during FY25, supported by recoveries under the Diminishing Musharaka (DM) portfolio, which led to a decline in NPLs to PKR 42.2mn (FY25: PKR 62.0mn; FY24: PKR 98.8mn; FY23: PKR 133.5mn). Consequently, gross infection for the DM portfolio reduced to 2.5% (FY25: 4.2%; FY24: 12.5%; FY23: 14.5%). The lower NPLs also translated into reduced provisioning; however, net infection and provisioning coverage improved to -0.2% (FY25: 1.0%; FY24: 6.2%; FY23: 9.0%) and 107.5% (FY25: 64.2%; FY24: 49.9%;

FY23: 38.8%), respectively, by end-Sept'25. The Modaraba carried a rescheduled exposure to a sugar mill—initially disbursed in FY21 and rescheduled in FY24 and recovery was made against this receivable.

Murabaha portfolio currently does not have any NPLs as these are short-term in nature; the same are secured against pledge and personal guarantee of a director. However, SINDM has made a 0.5% general provision amounting to PKR 1.07mn against these. Lastly, the long-term loan portfolio.

LIQUIDITY

Liquidity indicators remain strong with the current ratio being 11.9x at end-Sept'25 (FY25: 18.3x; FY24: 21.4x; FY23: 22.9x). During the review period, SINDM completely divested their short-term investment portfolio, and the proceeds were channeled towards financing portfolio for its expansion thereby reducing the current ratio. Liquidity also draws support from cash reserves amounting to PKR 279.7mn (FY25: 371.7mn; FY24: PKR 202.1mn) at end-Sept'25.

CAPITALIZATION

The equity base of the Modaraba (including the sponsor loan) increased to PKR 2.0bn (FY24: PKR 1.9bn) on account of improvement in both revenue and statutory reserves. Dividend payout of SINDM was recorded at 13.5% (FY24: 12.5%) in FY25. Additionally, SINDM distributed profits of PKR 60.7mn (FY24: PKR 56.2mn) in FY25. Modaraba's capitalization profile remains supported by sponsor loan and support from GoS. The equity base remained at PKR 2.0bn in 1FY26 and a reduction in reserves was observed which reached PKR 517.1mn (FY25: PKR 541.5mn) at end-1QFY26. Going forward, the Modaraba expects an equity injection of PKR 2.0bn from GoS out of which PKR 1.0bn has been approved and will be completed in December whereas the additional PKR 1.0bn will be injected in June 2026; the same will be deployed to support growth.

FINANCIAL SUMMARY						(In millions)
BALANCE SHEET	FY21	FY22	FY23	FY24	FY25	1QFY26
Ijarah Assets	5.0	-	-	-		
Morabaha	-	-	-	-	212.8	85.1
Current portion-Diminishing Musharaka	367.3	338.1	369.6	324.2	727.0	787.9
Long term portion-Diminishing Musharaka	447.3	505.6	494.2	414.7	716.7	883.4
Net Financing Portfolio	819.6	843.7	863.8	738.9	1,656.5	1,756.4
Short Term Investments	320.0	320.0	700.0	950.0	-	-
Cash and bank balances	475.5	494.2	182.1	202.1	371.7	279.7
Total current assets	1,200.4	1,174.0	1,280.8	1,516.5	1,341.5	1,176.6
Total Assets	1,657.2	1,684.6	1,778.2	1,938.2	2,064.8	2,066.1
Creditors, Accrued & Other Liabilities	26.4	33.3	44.4	60.1	69.0	35.9
Lease Key Money	5.0	-	-	-		
Total liabilities	32.1	38.6	55.9	70.9	73.3	99.0
Paid up Capital	450.0	450.0	450.0	450.0	450.0	450.0
Long Term Loan from Sponsor	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
Equity excluding sponsor loan	625.1	645.9	722.4	867.3	991.5	967.1
INCOME STATEMENT						
Income from Diminishing Musharaka	79.0	94.1	162.3	198.0	188.7	65.2
Income from Ijarah financing	0.6	-	-	-	-	-
Income from Morabaha finance	-	-	-	9.4	28.6	5.6
Income from Bank deposits	43.8	46.7	45.5	46.0	64.2	9.7
Income from Term Deposit Receipts	14.8	26.2	71.9	153.9	60.2	-
Operating Expenses	46.4	40.9	64.1	64.6	87.4	25.6
Other income	0.3	0.6	1.2	0.7	8.0	0.5
Profit/ (Loss) Before Tax						
	75.8	100.7	194.6	306.5	236.4	51.2
Profit/ (Loss) After Tax	75.8	66.3	130.4	201.3	180.1	36.4
RATIO ANALYSIS						
Current Ratio (x)	37.4	30.4	22.9	21.4	18.3	11.9
Gross Infection (DM)	14.0%	12.3%	14.5%	12.5%	3.6%	2.5%
Net infection (DM)	9.3%	6.2%	9.0%	6.2%	1.0%	-0.2%
NPL Provisioning Coverage (DM)	34.2%	49.0%	38.8%	49.9%	64.2%	107.5%
Efficiency (%)	33.6%	24.5%	22.9%	15.9%	25.6%	31.8%
ROAA (%)*	4.5%	4.0%	7.5%	10.8%	9.0%	7.0%
ROAE (%)* (excluding sponsor loan)	12.3%	10.4%	19.1%	25.3%	19.4%	14.9%

*Annualized

REGULATORY DISCLOSURES

Appendix II

Name of Rated Entity	Sindh Modaraba Limited					
Sector	Modaraba					
Type of Relationship	Solicited					
Purpose of Rating	Entity Ratings					
Rating History		Rating Date	Medium to Long Term	Short Term	Outlook/ Rating Watch	Rating Action
		RATING TYPE: ENTITY				
		12/24/2025	AA-	A1+	Stable	Upgraded
		11/13/2024	A+	A1	Stable	Reaffirmed
		09/06/2023	A+	A1	Stable	Reaffirmed
		06/30/2022	A+	A1	Stable	Reaffirmed
		06/29/2021	A+	A1	Stable	Reaffirmed
		06/30/2020	A+	A1	Stable	Reaffirmed
		02/22/2019	A+	A1	Stable	Reaffirmed
	12/29/2017	A+	A1	Stable	Reaffirmed	
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.					
Probability of Default	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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Due Diligence Meetings Conducted		Name		Designation		Date
		Mr. Mujahid Ali Mirza		Head of Risk Management		November 11, 2025
		Mr. Saeed Daudpota		Head of Credit & Marketing		
		Mr. Ishfaqe Ahmed		Head of Corporate Affairs, legal & SAM		
		Mr. Sarfaraz Ahmed Qazi		Head of Compliance		