



The Pakistan Credit Rating Agency Limited

## MODARABA AL-MALI

	<b>NEW</b> [APR-17]	<b>PREVIOUS</b> [MAR-16]
Long-Term	A-	A-
Short-Term	A2	A2
Outlook	Stable	Stable

<b>REPORT CONTENTS</b>
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

**Profile & Ownership**

- Modaraba Al-Mali (MAM), incorporated in 1987, is a small sized and perpetual multi-purpose Modaraba listed on Pakistan Stock Exchange, with its head office in Karachi.
- BankIslami Modaraba Investments Limited (BIML) – wholly owned subsidiary of BankIslami Pakistan Limited (BIPL) owns 13% equity of MAM, whereas others certificates are distributed among NBFCs, joint stock companies and individuals.

**Governance & Management**

- BoD comprises eight members. Seven nominees are of BIPL, and among them, there is one independent director.
- Mr. Muhammad Hamid is a Chairman of the board, having 45 years of diversified professional experience with local and multinational companies.
- There are two board committees; Audit committee and Human Resource committee.
- Mr. Aziz Adil- CEO of Modaraba Al Mali has two decades of diversified experience in the field of Islamic Finance. He is supported by a qualified management team.

**Risk Management Framework**

- MAM’s financing book comprises 98% of Ijarah and 2% of Musharakah.
- During 1HFY17 Ijarah financing exhibited a decrease of 1% (1HFY17: PKR 83mln; FY16: PKR 106mln; 1HFY16: PKR 113mln, end-FY15: PKR 86mln).
- Asset quality in existing credit portfolio is largely maintained (impaired lending to total funding ratio (1HFY17: 40%) non-performing loans are fully provided (1HFY17: PKR 56mln).
- Risk management system is crucial, given the management’s stance for growth.

**Performance**

- Modaraba main stream income is coming from the fuel business which is 1HFY17: PKR 66mln. The revenue took a hit when petroleum prices came down, but as of now it is stable. The margin is low, given regulatory nature of business.
- Gasoline station has earned income of (1HFY17: PKR 1mln; end-FY16: PKR 2mln; end-FY15: PKR 2mln).
- Modaraba second source of income is financing, which is majorly Ijarah. The income from the source has also been maintained. (1HFY17: PKR 4mln; FY16: PKR 9mln; 1HFY16: PKR 4mln).
- Controlled operating cost (1HFY17: PKR 6mln; FY16: PKR 15mln; FY15: PKR 22mln) lead to a registered net profit of PKR 5mln in FY16 (FY15: PKR 5mln).
- Going forward, Modaraba has developed consumer finance department for which they have hired a specialized team of 3-4 people. This department will focus solely on Islamic financing (Ijarah and Musharakah financing). Modaraba Senior management is expecting 1-2 % in its spread on YOY basis return from this department (Current spread for Modaraba is 10%-11%).
- Modaraba expected that this department would yield profit six month from now.
- Modaraba will also go for Morabaha financing, but only for the rated clients having minimum A-rating.
- Funding lines available from the management company which is of PKR 100mln and from BankIslami of PKR 50mln is available to the Modaraba.
- Whereas, on non-funding side of the business, Modaraba is also seeking opportunities in SME market of Saudi Arabia.

**Financial Risk**

- Modaraba has largely maintained its portfolio through equity based capital structure (1HFY17: PKR 158mln; FY16: PKR 160mln); however funding support from the management company and sponsor bank would be available
- Modaraba does not plan on mobilizing deposits from public in the future.

**RATING RATIONALE**

The ratings reflect adequate financial profile of Modaraba Al Mali supported by its equity based capital structure. Modaraba is gradually building up its financing book, deploying funds in Ijarah and Musharaka. Ijarah book is slightly decreased; MAM's non-additive and fully provided non-performing book depicts management's cautious strategy. Gasoline station is adding value into the non-financing side of Modaraba. The management would maintain largely equity based capital structure; however borrowing from the management company and sponsor bank would be available.

**KEY RATING DRIVERS**

The ratings are dependent on the management's ability to focus more on its core business, adding more Musharakah financing and ensure consistent improvement in its performance. Maintaining healthy asset quality while maintaining it's current largely equity based capital structure is important to maintain the ratings at current level.

**INDUSTRY SNAPSHOT**

- Industry comprises 25 Modarabas.
- Intense competition from established financial institutions (FIs) owing to small network and similar nature of products being offered by these FIs.
- High threat of new entrants owing to small capital investment
- SECP grants authorization to float two new Modaraba of PKR 800mln.
- Draft Regulations 2015, Draft Amendments in Modaraba Rules 1981, and 2016 Draft Modaraba Amendments Bill circulated by SECP.
- Restriction on issuance of COIs in Draft Modaraba Amendments Bill circulated by SECP.

**Modaraba Al-Mali****MODARABA***PKR(mln)*

<b>BALANCE SHEET</b>	31-Dec-16	30-Jun-16	30-Jun-15	30-Jun-14
	<b>1HFY17</b>	<b>Annual</b>	<b>Annual</b>	<b>Annual</b>
<b>Assets</b>				
<b>Earning Assets</b>				
Ijarah Finance	83	106	86	39
Other Earning Assets	77	76	82	100
Non Earning Assets	38	38	38	69
Non-Performing Finances	56	56	59	67
<i>Less: Accumulated provision (specific/prudential)</i>	(56)	(56)	(59)	(67)
<b>Total Assets</b>	200	219	206	208
<b>Liabilities</b>				
Total Funding	26	44	28	28
Other Liabilities	16	16	19	26
<b>Equity</b>				
Total Equity	158	160	159	154
<b>INCOME STATEMENT</b>				
Gross Revenue	6	12	11	4
Total Net Revenue	8	19	21	10
Operating Expenses	6	15	22	19
Net Income	2	5	5	(10)
<b>Ratio Analysis</b>				
Cost-to-Total Net Revenue	68.9%	77.6%	108.3%	200.3%
Equity / Total Assets	78.8%	72.7%	77.2%	73.9%
Impaired Lending / Gross Finances	39.8%	34.5%	40.8%	63.5%
Loan Loss Provisions / Impaired Lending	100.0%	100.0%	100.0%	100.0%

**Apr-17**

## CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>AA+</b>	<b>Very high credit quality.</b> Very low expectation of credit risk.	
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
<b>AA-</b>		
<b>A+</b>	<b>High credit quality.</b> Low expectation of credit risk.	
<b>A</b>	The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	
<b>A-</b>		
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk.	
<b>BBB</b>	The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	
<b>BBB-</b>		
<b>BB+</b>	<b>Moderate risk.</b> Possibility of credit risk developing.	
<b>BB</b>	There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	
<b>BB-</b>		
<b>B+</b>	<b>High credit risk.</b>	
<b>B</b>	A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	
<b>B-</b>		
<b>CCC</b>	<b>Very high credit risk.</b> Substantial credit risk	
<b>CC</b>	“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.	
<b>C</b>		
<b>D</b>	Obligations are currently in default.	

**Outlook (Stable, Positive, Negative, Developing)**  
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

**Rating Watch**  
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

**Suspension**  
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn**  
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



## Regulatory and Supplementary Disclosure

### [Rated Entity](#)

**Name of Rated Entity**  
**Sector**  
**Type of Relationship**

Modaraba Al-Mali  
Modaraba  
Solicited

### [Purpose of the Rating](#)

Independent Risk Assessment

### [Rating History](#)

Dissemination Date	Long Term	Short Term	Outlook	Action
20-Apr-16	A-	A2	Stable	Maintain
9-Jun-15	A-	A2	Stable	Maintain
30-Jun-14	A-	A2	Stable	Maintain
17-May-13	A-	A2	Stable	Maintain
30-Mar-12	A-	A2	Stable	Maintain

### [Related Criteria and Research](#)

**Methodology:**  
**Related Research**

Non- Banking Finance Companies Methodology  
Modaraba - Viewpoint | Mar-17

### [Rating Analysts](#)

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### [Rating Team Statement](#)

#### **Rating Procedure**

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PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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### [Probability of Default \(PD\)](#)

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