

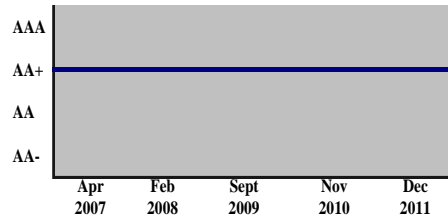


**RATINGS (DECEMBER 2011)**

**STANDARD CHARTERED MODARABA**

ENTITY	NEW	PREVIOUS
LONG TERM	AA+	AA+
SHORT TERM	A1+	A1+

**SCM L.T. ENTITY RATING HISTORY**



**FINANCIAL DATA**

PKR (MLN)

	1QFY12*	FY11
Total Assets	4,343.2	4,161.
Ijarah Assets	3,431.2	3,324.
Equity	881.9	938.1
Profit after Tax	18.0	86.6
ROA %	9.7^	2.2
ROE %	2.1^	8.3
Equity/Assets %	20.3	22.5
Impaired lending/ Total Finances %	1.4	1.4
Total Debt/ Equity %	292.9	264.6

\* Based on unaudited accounts for three months ended September 30, 2011

^Annualized

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**RATING RATIONALE & KEY DRIVERS**

- The ratings reflect SCM's demonstrated ability to restrict infection in its finances portfolio despite volatile macroeconomic fundamentals of the country. This is attributable to SCM's rigorous loan approval process and effective post disbursement monitoring. The Modaraba enjoys association with a robust financial institution – Standard Chartered Bank (Pakistan) Limited, which, alongwith other benefits has enabled SCM to avail an established franchise among retail depositors.
- The ratings are dependent on the continuing support from Standard Chartered Bank Pakistan Limited (SCBPL) particularly in the areas of risk management and access to its branch network for funds mobilization. Moreover, the management's ability to sustain its competitive edge – asset quality as well as a strong and diverse funding base – in the wake of planned expansion in finances would remain critical. Given growth targets, maintaining a prudent capital structure is important.

**ASSESSMENT**

- SCM's ijarah portfolio comprises two segments: (i) vehicles and (ii) plant, machinery & equipment. During FY11, SCM's ijarah portfolio underwent a change in its mix as the latter took over a dominant portion (FY11:53%; FY10: 48%) of the pie. Besides ijarah, SCM has been trying to enhance musharaka financing book. This segment observed substantial growth during FY11.
- During FY11, SCM managed to register significant growth in ijarah rentals on account of enhanced ijarah portfolio. Nevertheless, ijarah finance income witnessed a minor dip, attributable to accelerated amortization inline with Islamic Financial Accounting Standard II. However, increased income from musharaka financing helped SCM in recording improved gross income, albeit slightly. Moreover, financial charges declined owing to decreased cost of funding with higher COMs base. While operating expenses witnessed only inflationary adjustment, SCM made a provision of PKR 27mln against its investment in sukuk certificates. Nevertheless, SCM managed to register a modest increase in its net income on a comparative basis. During 1QFY12, SCM maintained the trend of its profitability.
- Going forward, the Modaraba plans to aggressively expand its ijarah book, while strengthening its presence in musharaka segment. While ijarah would be targeting both corporate and individuals, musharaka would be offered to corporates; nevertheless housing finance diminishing musharaka, currently for employees of SCBPL, would be expanded to employees of other financial institutions/corporates. For ijarah, SCM sees significant growth potential in the energy, food & allied and service sector. SCM would continue leveraging SCBPL's network for extending its outreach and enhance the portion of cross-selling. For its funding base, the Modaraba intends to expand its retail base through Certificates of Musharaka (CoMs) in-line with business growth.
- The Modaraba has a diversified loan book that spreads over a large number of sectors with food & allied dominating the book (26%), followed by chemicals (11%). Usually potential risks are mitigated by extending credit to good corporate clients, most of which have already developed satisfactory business relationships with SCBPL. Through this SCM generally maintains good asset quality. SCM monitors industry caps and maintains exposure towards each industrial segment below 25%. As a measure to prevent NPLs, post disbursement review of accruing rentals is a regular feature. The credit concentration in terms of top 10 exposures (with lease size of more than PKR 60mln) increased to 43%, depicting a high concentration level (FY10: 39%).
- The Modaraba obtains funding mostly in the form of Musharaka deposits (from corporates alone) and Certificates of Musharaka (from corporates and individual customers). SCM enhanced the proportion of COMs (FY11: 86%, FY10: 72%), while repaying a major chunk of musharaka deposits. In addition to being cost effective, this has added diversity to the funding base of the Modaraba. As the finance portfolio witnessed significant expansion, the growth was supported by enhancement in COMs and increasing utilization of funding line available from SCBPL (FY11: 91%; FY10: 2%). SCM possesses a musharaka financing line of up to PKR 500mln from SCBPL. SCM's exposure to profit rate risk is limited, given most of the Modaraba's Ijarah portfolio (99%) linked with floating rates.
- SCM has a leveraged financial profile, highlighting its exposure to financial risk. Nevertheless, comfort may be drawn from diversified and stable COMs base and implied support of the sponsoring bank.

**PROFILE**

- Standard Chartered Modaraba, an Islamic financial institution, established in 1987, is a perpetual, multipurpose Modaraba, listed on the Karachi and Lahore stock exchanges. It is primarily engaged in financing of plant, machinery and vehicles, and operates from offices in Karachi, Lahore and Islamabad. Standard Chartered Services of Pakistan (Pvt.) Limited - a wholly owned subsidiary of Standard Chartered Bank (Pakistan) Limited (SCBPL) - manages the Modaraba. SCBPL - around 99% owned subsidiary of Standard Chartered Plc and rated "AAA" (Triple A) by PACRA - is one of the leading banks of Pakistan and has a network of 143 branches across the country.
- The CEO of SCBPL, Mr. Mohsin Nathani, chairs the six-member board of the Modaraba. All members of the board hold executive positions in SCBPL. The recently appointed Managing Director of SCM, Mr. Raheel Q. Ahmad, an MBA from IIT, Chicago, has over 20 years of diversified corporate and investment banking experience with both national and international organizations.