

RATING REPORT

Trust Modaraba

REPORT DATE:

September 13, 2019

RATING ANALYSTS:

Muniba Khan

muniba.khan@vis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Entity	Entity
Entity	BBB-/A-3	BBB-/A-3
Rating Date	Aug 27, '19	Jan 26, '18
Rating Outlook	Rating Watch - Negative	Stable

COMPANY INFORMATION

Incorporated in 1991	External Auditors: Horwath Hussain Chaudhury & Company, Chartered Accountants
Public Listed Company	Chairman: <i>Vacant</i>
	Chief Executive Officer: Mr. Basheer Ahmed Chowdry

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Non-Bank Financial Companies (October, 2017)

<http://vis.com.pk/kc-meth.aspx>

Trust Modaraba

OVERVIEW OF THE INSTITUTION

Trust Modaraba (TM) was incorporated in 1991 under Mordaraba companies and Modaraba (flotation and control) Ordinance. TM is listed on Pakistan Stock Exchange with the head office located in Karachi. Financial Statements of the modaraba for FY19 were audited by Horwath Hussain Chaudhury & Company, Chartered Accountants.

RATING RATIONALE

Since 2009, Trust Modaraba (TM) has been managed by Al-Zamin Modaraba Management (Private) Limited (AZMM). TM is currently engaged in Ijarah, Murabaha, Musharakah trading and equity market operations. Majority certificate holding of the Modaraba is vested with an individual, Mr. Mohammad Aslam Motiwala (56.8%) followed by 17.7% interest by AZMM. During the second half of FY19, Chairman to the Board also resigned; the position is yet to be filled.

Key Rating Drivers

Financing portfolio of the Modaraba from core business activities depicted a declining trend on a timeline basis as a result of management's strategy to diversify revenue streams; plans to grow its funding pool by way of either equity injection or merger are currently underway

Financing portfolio of the company was reported lower at Rs. 202.3m (FY18: Rs. 226.4m; FY17: Rs. 239.0m) at end-March 2019. This decline was on account of both limited funding pool available for the Modaraba along with efforts to diversify core operations; options for improving the same are being currently explored. Murabaha financing continues to represent the largest chunk of the portfolio with it contributing almost two-thirds of total financings.

Table 1: Financing Portfolio of Trust Modaraba

	FY16	FY17	FY18	9M19
Ijarah	64.5	60.8	45.8	61.8
Murabaha	173.1	154.5	154.5	120.8
Musharaka	16.5	23.7	26.1	19.8
Total	254.2	239.0	226.4	202.3

Infection levels were adversely impacted with lower portfolio base; recoveries against cases in litigation are pending

During the outgoing year, the modaraba made vigorous recovery efforts towards its non-performing legacy portfolio. All cases under litigation have now been concluded in court along with their due payments decided; timeline for receiving these payments is not determined to date. With a lower portfolio base, asset quality indicators continue to remain less favorable. Gross and net infection of the Modaraba worsened to 69.6% (FY18: 65.0%, FY17: 57.9%) and 38.1% (FY18: 35.7%, FY17: 25.2%), respectively. Despite inherited infection in the financing portfolio, a single exposure does not exceed more than 10% of its equity base.

Table 2: Infection Levels

	FY16	FY17	FY18	9M19
Gross Infection (%)	59.0	57.9	65.0	69.6
Net Infection (%)	29.1	25.2	35.7	38.1
Provisioning Coverage (%)	50.4	50.7	70.0	73.1

With a decline in portfolio levels, profitability indicators of the Modaraba were also reported lower than previous years

With limited financial resources to build up the portfolio, bottom line of the company was reported lower at Rs. 1.9m in FY18 vis-à-vis Rs. 14.2m in FY17; profit after tax of the Modaraba was Rs. 1.1m during the nine months ending March 31 2019. Going forward, recovery of projected NPLs and availability of fresh funding will remain key growth drivers for the Modaraba. TM also maintains an exposure of Rs. 16.9m in the equity market in the form of both shares and mutual fund units with an unrealized loss of Rs. 1.1m, at end-March 2019, given the recent downturn in the stock market. Ability to maintain these profitability metrics at adequate levels will be important.

Liquidity and capitalization levels of the Modaraba remain at adequate levels

With no outstanding borrowings on the balance sheet, leverage indicators of the Modaraba continue to remain on the lower side at 0.23x. Equity base of the company was reported at Rs. 305.5m (FY18: Rs. 306.0m, FY17: Rs. 315.2m) at end-9M19. Liquidity profile is also considered adequate with proportion of liquid assets to liabilities remaining above 1x.

VIS Credit Rating Company Limited

International Affiliates: Islamic International Rating Agency - Bahrain, Credit Rating Information & Services Ltd. - Bangladesh, Borhan Credit Rating Company Ltd. - Iran

Trust Modaraba (TM)

Appendix I

FINANCIAL SUMMARY (amounts in PKR millions)						
BALANCE SHEET	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	March 31, 2019
Total Investments	6.3	12.3	20.8	20.4	24.9	22.3
Total Assets*	322	325	324.8	331.2	330.5	334.3
Borrowings	-	-	-	-	-	-
Gross Financing	282.3	247.1	254.2	239	226.4	202.3
<i>Ijarah</i>	74.2	67.9	64.5	60.8	45.8	61.8
<i>Murabaha</i>	189.2	172.6	173.1	154.5	154.5	120.8
<i>Musharaka</i>	18.9	6.6	16.5	23.7	26.1	19.8
Tier-1 Equity	306.7	310.1	310.2	315.2	306	305.5
INCOME STATEMENT	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	March 31, 2019
Total Income	104	85.6	84.9	84.7	64.9	45.2
Net (Provisioning) / Reversal	-0.9	5.2	-0.1	0.5	-0.1	0.3
Operating Expenses	26.9	26.2	28.8	29.6	30.4	23.7
Profit (Loss) Before Tax	20.2	17.4	13	14.2	2	1.2
Profit (Loss) After Tax	20.2	17.4	13	14.2	1.9	1.1
RATIO ANALYSIS	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	March 31, 2019
Gross Infection (%)*	59.7	60	59	57.9	65	69.6
Net Infection (%)*	30.3	30	29.1	25.2	35.7	38.1
Provisioning Coverage (%)*	50.8	51.3	50.4	50.7	70	73.1
Leverage	0.36	0.33	0.28	0.24	0.23	0.23
Efficiency (%)	25.9	30.6	33.9	34.9	46.9	52.5
ROA (%)	4.8	4.2	3.3	3.6	0.5	0.3
ROE (%)	6.6	5.6	4.2	4.5	0.6	0.4
Current Ratio (x)	4.1	4.4	4.3	4.8	5.5	4.9

*Net of Lease Key Money

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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

Rating Watch: 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.vis.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.vis.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.

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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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.

VIS Credit Rating Company Limited

International Affiliates: Islamic International Rating Agency - **Bahrain**, Credit Rating Information & Services Ltd. - **Bangladesh**, Borhan Credit Rating Company Ltd. - **Iran**

REGULATORY DISCLOSURES		Appendix III			
Name of Entity	Trust 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				
	27-Aug-19	BBB-	A-3	-	Rating Watch - Negative
	26-Jan-18	BBB-	A-3	Stable	Maintained
	6-Dec-16	BBB-	A-3	Positive	Initial
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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				