Allied Rental Modaraba

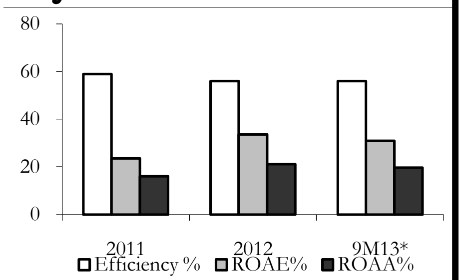
Chairman: Mr. Khwaja Asif Rahman; Chief Executive: Mr. Murtaza Ahmed Ali

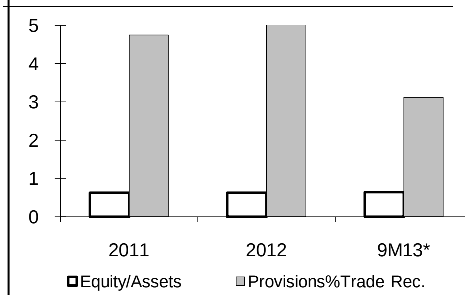
July 30, 2013

Analysts: Sobia Maqbool, CFA
Anum Irfan

Category	**Latest**	**Previous**
Entity	**A+/A-1** *Jul 30, '13*	**A/A-2** *Jul 4, '12*
Outlook	***Stable*** *Jul 30, '13*	***Positive*** *Jul 4, '12*

Key Financial Trends





(Rs. million)	2011	2012	9M13*
Revenue	1,034	1,544	1,518
Ijarah Rentals	862	1,372	1,412
Net Profit	288	499	591
Equity	1,303	1,663	2,165
Long Term Debt**	426	892	1,217
Debt Leverage(x)**	0.78	0.87	0.79
FFO	487	751	965
FFO/Total Debt**(x)	1.14	0.84	0.79
ROAE(%)	23.5	33.6	30.9
ROAA(%)	16.1	21.1	19.6

**Annualized, where applicable*
***includes financing under Ijarah (off-balance sheet)*

Rating Rationale

Anticipating rising demand of rental power in the country, growth momentum in rental fleet of Allied Rental Modaraba (ARM) continued during FY13 mainly comprising diesel generators. Operating assets primarily consist of Ijarah assets that were higher at Rs. 2.8b at end-Mar'13 (FY12: Rs. 2.1b; FY11: Rs. 1.8b), representing 80% of total assets. In addition to this, ARM has assets amounting to Rs. 423m at end-Mar'13, recorded off-balance sheet; these were obtained under operating lease and sub-let to clients. Improvement was witnessed in the deployment of generators as fleet utilization rate of generators was recorded at 88.6% (FY11: 78.4%) in FY12 and 81% in 9M13. Given that energy crisis remains unresolved, the modaraba plans to further expand its rental fleet of diesel generators. The management expects higher development expenditure in anticipation of which increase in logistics and earth moving equipments is also planned, going forward.

The company issued 20% rights issue at a premium of Rs. 9 per share during FY13. This along with retention of profits resulted in strengthening of capital base. Increasing paid-up capital has allowed the modaraba to retain a significant part of its earnings while maintaining its tax-exempt status. To support growth in operations, ARM also borrowed additional funds from various financial institutions. However, debt leverage (accounting for Ijarah financing) and gearing declined on the back of expansion in equity base. Considerable capex is planned by ARM that is to be funded through a mix of equity injection, internal capital generation and borrowings. The modaraba plans to maintain leverage around current levels, going forward.

With extended operations, Funds from Operations (FFO) depicted improvement in FY12 and 9M13. Debt service coverage of the company remained strong even after taking into account off-balance sheet liability that pertains to Ijarah financing. Liquidity profile of ARM is considered sound, supported by its ability to generate healthy cash flows. In spite of procurement of further debt, FFO in relation to total debt (including Ijarah Financing) is expected to remain strong, going forward, provided deployment rate of assets remains high and quality of receivables remains intact.

Ijarah rentals are the primary source of income (89%) for ARM; in line with growth in assets, growth in revenues continued in FY12 & FY13, with total revenues amounting to Rs. 1.5b during 9M13 (FY12: Rs. 1.5b; FY11: Rs. 1.0b). The company was also able to earn higher gross margins in FY12. Efficiency improved on a timeline basis and was recorded at 56% for FY12 (FY11: 59%) and hovered around the same level during 9M13. Despite some decline in gross margins during 9M13, net profit (annualized) recorded considerable improvement primarily on account of higher top line. While concentration levels reduced to some extent on a timeline basis, contribution of top 5 customers still remained high at one-fourth (9M12: 33%) of the total revenues.

Given the nature of modaraba's operations, business risk is considered low. The management may nevertheless consider ways to improve documentation with clients to safeguard its ability to enforce contracts. While credit approval mechanism may also need to be formalized further, the ease of re-possession of assets mitigates the risk of default by clients. Moreover, the modaraba's assets may be readily re-deployed at alternate sites.

Overview of the Institution

Allied Rental Modaraba (ARM) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed there under and is managed by Allied Engineering Management Company (Private) Limited. The management company is incorporated in Pakistan under the Companies Ordinance, 1984 and registered with the Registrar of Modaraba Companies and Modarabas. ARM is listed on the Karachi Stock Exchange.

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: Entity		
30-Jul-13	A+	Stable	A-1	Upgrade
04-Jul-12	A	Positive	A-2	Maintained
14-Mar-11	A	Stable	A-2	Upgrade
18-May-10	A-	Stable	A-2	Initial