

Allied Rental Modaraba

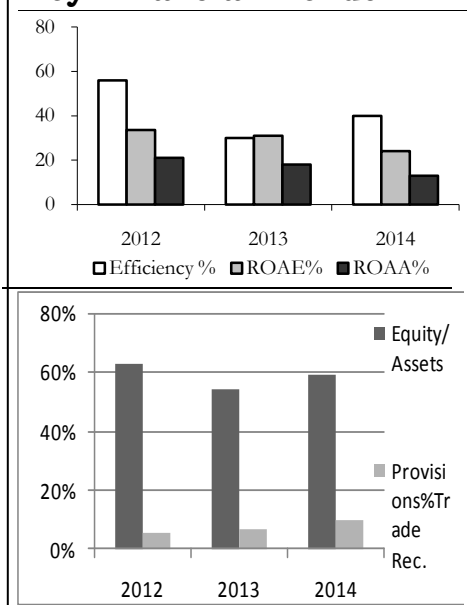
Chairman: Mr. Khwaja Asif Rahman; Chief Executive: Mr. Murtaza Ahmed Ali

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Analysts: Talha Iqbal
Maham Qasim

Category	Latest	Previous
Entity	A+ / A-1 Dec 29, '14	A+ / A-1 Jul 30, '13
Outlook	Stable Dec 29, '14	Stable Jul 30, '13

Key Financial Trends



(Rs. In millions)	2012	2013	2014
Revenue	1,544	2139	2542
Ijarah Rentals	1,372	2010	2450
Net Profit	499	632	651
Equity	1,663	2354	3119
Long Term Debt**	892	1449	2193
Debt Leverage(x)**	0.87	1.05	0.87
FFO	751	1037	1257
FFO/Total Debt**(x)	0.84	0.72	0.57
ROAE(%)	33.6	30.7	23.8
ROAA(%)	21.1	18.2	13.4

Rating Rationale

The assigned ratings incorporate moderate business and sound financial risk profile of ARM. Liquidity profile of ARM is considered sound in view of healthy cash flows from operations while capitalization levels have strengthened over the years on account of internal profit generation and equity injection through right shares. While gearing has increased on a timeline basis, it continues to remain within manageable levels. Ratings continue to derive strength from the arrangement with Allied Engineering Services Limited (AESL), which is the sole dealer for Caterpillar products in Pakistan

ARM continued to expand its rental fleet during FY14 with over Rs. 2b gross investment in rental assets. Around four-fifth of the total investment pertained to gensets while the remaining one-fifth pertained to logistics and infrastructure segment. Given the continuous investment in rental assets, asset base of ARM has doubled over the last two years. While generator rental business still remains the major contributor to revenues, we have noted management's efforts to diversify revenues in the logistics business. ARM plans to continue to expand its rental fleet with fresh investment of Rs. 2b to be made in FY15. This is planned to be financed through a mix of internal cash flows, issuance of rights shares and borrowings. Gearing levels are projected to remain below 1(x) over the foreseeable horizon. Exposure to credit risk is considered manageable in view of ARM's ability to repossess assets in the event of non-payment.

Despite sizeable growth in revenues, profitability of ARM witnessed only a slight growth on account of higher depreciation charge, increase in finance cost and mismatch in revenue inflows and payment of Ijarah rentals. As per management, gradual replacement off-balance sheet borrowings by funds raised through rights issue is planned, in order to offset the adverse impact on profitability.

With growth in revenues, Funds from Operations increased (FFO) to Rs. 1.3b (FY13: Rs. 1b) in FY14. However, FFO to total debt (including Ijarah financing) decreased to 0.57x (FY13:0.71x) by end-June'14 due to increase in total debt. On account of strong cash flows, the modaraba has sound liquidity profile.

The modaraba is managed by Allied Engineering Management Company (Private) Limited, which is a wholly owned subsidiary of AESL. AESL is the dealer for Caterpillar products in Pakistan. AESL is also an authorized distributor of MCF Material Handling Equipment, Sany Cranes, Ingersoll Rand Compressors, Broad Chillers and IMW CNG Equipment's in Pakistan.

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 JCR-VIS