

KASB Modaraba

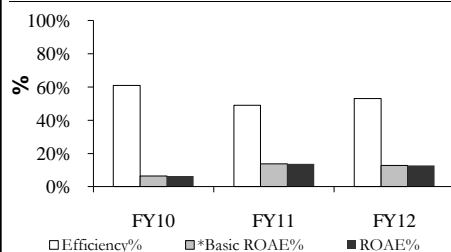
Chairman: Mr. Syed Waseem-ul-Haq Haqqie; Acting Chief Executive: Ms. Faiqa Naz

Date: January 30, 2013

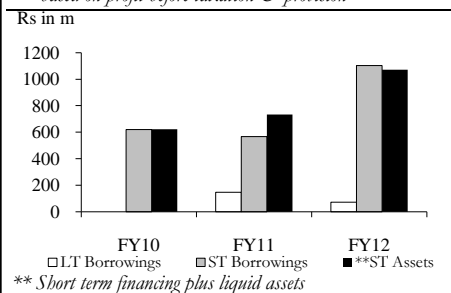
Analysts: Sobia Maqbool, CFA
Zia M Usmani

Category	Latest	Previous
Entity	BBB+/A-2	BBB+/A-3
	Jan 22, '13	Dec 28, '11
Outlook	Positive	Stable
	Jan 22, '13	Dec 28, '11

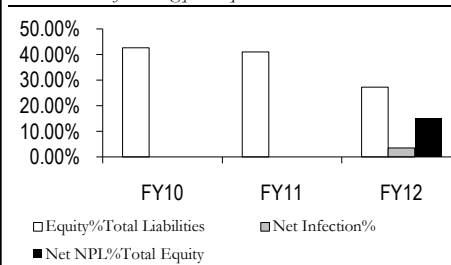
Key Financial Trends



* based on profit before taxation & provision



** Short term financing plus liquid assets



Rating Rationale

KASB Modaraba (KASBM) is managed by KASB Invest (Pvt.) Limited, a KASB group company, and is also majority owned by the group. Until recently, Mr. Syed M. Husaini was Chief Executive of the modaraba; however, he has recently been appointed as Acting President & CEO of KASB Bank Limited (KASB Bank) and the CFO and Company Secretary of KASBM has been given acting charge to run the modaraba.

KASBM's asset base grew by 46% in FY12 to Rs. 1.5b (FY11: Rs. 1.05b) with focus increasing on core financing activity. The financing portfolio has increased to Rs. 1.4b (FY11: Rs. 0.88b) and comprises 91.5% (FY11: 83.7%) of assets. Dominant financing vehicle is morabaha followed by diminishing musharika financing. In view of the uncertain energy and security situation in the country, KASBM has focused on commodity financing, which is 64% of total credit exposure. The modaraba finances fast moving commodities and keeps adequate collateral margin and control on warehousing; thus risk on commodity financing is manageable. Portfolio concentration is high with exposure against top 20 clients comprising 65% of the credit portfolio. KASBM is exposed to concentration related risk i.e. default by a few large clients can increase infection; in FY12, increase in gross infection to 3.58% was largely on account of default by just one counterparty.

Since takeover by the KASB group the modaraba has set out on a path of leverage driven growth; leverage increased to 3.67x (FY11: 2.43x) in FY12 and is projected to increase slightly further going forward. Equity has increased to Rs. 330.2m (FY11: Rs. 307.6m) during FY12 while the sponsors have committed to inject Rs. 60m in KASBM and have deposited the amount in Certificate of Musharika certificates (COMs) issued by the modaraba to be converted into equity when right shares are issued subsequent to completion of restructuring at group level. Until then, KASBM will pay markup on these COMs at par with the return on other COMs.

With increased focus on core financing activity, liquid assets (FY12: 4.3% of assets; FY11: 10.4%) are around minimum regulatory level required for issuance of COMs. Out of total COMs of Rs. 0.95b (FY11: Rs. 0.65b), majority are short term in nature. While this reduces the markup rate risk in the current declining markup rate environment, it may place some stress on liquidity profile; current ratio declined to 0.98x (FY11: 1.28x) in FY12. This risk is mitigated to an extent by the profile of COMs which are largely retail in nature and have good roll-over history. Additionally, KASBM has a credit line of Rs. 300m from KASB Bank, which allows the modaraba to take advantage of business opportunities when excess liquidity is limited while also acting as buffer against unexpected COM withdrawals. Over time, KASBM replaces bank borrowings with COMs which are less costly. Access to credit lines from multiple institutions may improve credit availability when required; auditors have also highlighted need for obtaining Shariah compliant credit lines.

Cost of funding decreased to 12.5% (FY11: 13.5%) in line with decrease in benchmark rate; however, return on markup bearing assets also decreased to 15.7% (FY11: 17%) leading to reduction in spreads to 3.2% (FY11: 3.5%). Spreads were also affected by increase in non-earning assets due to increase in infection. Efficiency ratio increased to 53.1% (FY11: 49%) due to increase in overheads. Resultantly, increase in leverage has not been translated into higher returns as ROAE reduced to 12.75% (FY11: 13.78%), with net profit being around prior year level at Rs. 40.7m (FY11: Rs. 40.1m) in FY12.

Overview of the Institution

KASB Modaraba is managed by KASB Invest (Private) Limited. KASBM is a multipurpose modaraba engaged in Ijarah, Murabaha, Modaraba and Diminishing Musharaka financing. KASBM is listed on Karachi and Lahore stock exchanges. Financial statements of the modaraba for FY12 have been audited by M/s Ernst & Young Ford Rhodes Sidat Hyder & Company [JCR-VIS]