

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

## RATING REPORT

### Trust Modaraba (TM)

**REPORT DATE:**  
December 6, 2016

**RATING ANALYSTS:**  
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#### RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short Term
Entity	BBB-	A-3
<i>Rating Date</i>	<i>Dec 6, '16</i>	
Rating Outlook	Positive	

#### COMPANY INFORMATION

<b>Incorporated in 1991</b>	<b>External Auditors:</b> Deloitte Yousaf Adil
<b>Public Listed Company</b>	<b>Chairman:</b> Mr. Syed Manzoor Hussain Shah Kazmi
	<b>Chief Executive Officer:</b> Mr. Basheer Ahmed Chowdry

#### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Modaraba Rating Scale <http://www.jcrvis.com.pk/images/JCR-Mod.pdf>  
Linkages between Parent and Subsidiary companies [http://jcrvis.com.pk/Images/criteria\\_parent.pdf](http://jcrvis.com.pk/Images/criteria_parent.pdf)

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## Trust Modaraba (TM)

### 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 FY16 were audited by Deloitte Yousof Adil & Co., Chartered Accountants.

### RATING RATIONALE

Incorporated in 1991, Trust Modaraba (TM) is engaged in providing financing services under Ijarah, Murabaha and Musharakah arrangements. In view of its dismal financial position by 2007, TM's management rights were given to Al Zamin Modaraba Management (Private) Limited by the SECP; Al-Zamin injected Rs. 25m in TM and took over management control. The portfolio inherited by TM was entirely infected.

#### Rating Drivers

- **Portfolio:** TM's financing portfolio comprises varied financing arrangements, with Murabaha (68%) being the largest, followed by Ijarah (25%) and Musharaka (7%). On a timeline basis, the portfolio has declined as management devoted resources out of the small sized portfolio towards investment in equities of other companies.
- **Asset Quality:** Entire legacy portfolio was classified as non-performing, which now comprises two-fifth of the current portfolio. Moreover, asset quality indicators pertaining to the fresh portfolio have weakened over time. Fresh disbursement may warrant prudent underwriting in order to limit infection in the portfolio.
- **Profitability:** Increasing infection and depleting financing portfolio exerted downward pressure on the bottom line which was reported lower at Rs. 13.0m (FY15: Rs. 17.4m) for FY16.
- **Liquidity and Capitalization:** Asset base of the modaraba has been funded entirely through equity which has facilitated in containing leverage indicators on the lower side. Liquidity profile draws support from cash and marketable securities (FY16: Rs. 32.5m, FY15: Rs. 13.3m) carried on the balance sheet, which have increased on a timeline basis
- **Recoveries:** Growth of the modaraba is contingent on recoveries from NPLs. TM has recovered 56% of NPLs pertaining to inherited portfolio, which is attributable to vigorous effort by the management; sizeable recoveries are expected to flow in over FY17 as well.

#### Outlook

Given adequate liquidity profile, management is able to sustain operations at current level. Since modaraba distributes around 90% of its earnings as dividend, it leaves little room for reinvestment. Therefore, growth remains contingent on modaraba's ability to obtain external funding and prospective recoveries. Moreover, prudent underwriting is paramount to contain infection in fresh disbursement.

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### Trust Modaraba (TM)

### Appendix I

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b><u>BALANCE SHEET</u></b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Total Investments	20.6	12.3	6.3
Total Assets*	324.8	325.0	322.0
Borrowings	-	-	-
Gross Financing	252.8	247.1	282.3
<i>Ijarah</i>	64.5	67.9	74.2
<i>Murabaha</i>	171.1	172.6	189.2
<i>Musharaka</i>	16.5	6.6	18.9
Tier-1 Equity	310.2	310.1	306.7
<b><u>INCOME STATEMENT</u></b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Total Income	84.9	85.6	104.0
Net (Provisioning) / Reversal	-0.4	5.2	(0.9)
Operating Expenses	28.8	26.2	26.9
Profit (Loss) Before Tax	13.0	17.4	20.2
Profit (Loss) After Tax	13.0	17.4	20.2
<b><u>RATIO ANALYSIS</u></b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Gross Infection (%)*	59.0%	60.0%	59.7%
Provisioning Coverage (%)*	29.1%	30.0%	30.3%
Net Infection (%)*	50.4%	51.3%	50.8%
Efficiency (%)	33.9	30.6	25.9
ROA (%)	3.3	4.2	4.8
ROE (%)	4.2	5.6	6.6
Current Ratio (x)	4.3	4.4	4.1

\*Net of Lease Key Money

## ISSUE/ISSUER RATING SCALE & DEFINITIONS

## Appendix II

### 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:** JCR-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.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.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.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.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

### 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.

and not on the basis of the credit quality of the issuing entity alone.

**'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.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-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.

**REGULATORY DISCLOSURES**

**Appendix III**

<b>Name of Rated Entity</b>	Trust Modaraba (TM)				
<b>Sector</b>	Modaraba				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	6-Dec-16	BBB-	A-3	Positive	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	JCR-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.				
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