

RATING REPORT

Trust Modaraba (TM)

REPORT DATE:

January 26, 2018

RATING ANALYSTS:

Muniba Khan

muniba.khan@jcrvis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Entity	Entity
Entity	BBB-/A-3	BBB-/A-3
Rating Date	Jan 26, '18	Dec 6, '16
Rating Outlook	Stable	Positive

COMPANY INFORMATION

Incorporated in 1991	External Auditors: Horwath Hussain Chaudhury & Company, Chartered Accountants
Public Listed Company	Chairman: Mr. Syed Manzoor Hussain Shah Kazmi Chief Executive Officer: Mr. Basheer Ahmed Chowdry

APPLICABLE METHODOLOGY(IES)

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

<http://jcrvis.com.pk/docs/NBFCs%20201710.pdf>

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 FY17 were audited by Hornath Hussain Chaudhury & Company, Chartered Accountants.

RATING RATIONALE

Trust Modaraba (TM) is managed by Al-Zamin Modaraba Management (Private) Limited (AZMM) since 2009. Prior to this, the modaraba experienced a different management regime under which TM's financial and operating performance deteriorated over the years. In order to revive operations of the modaraba, AZMM injected fresh capital of Rs. 25m increasing the capital base to Rs. 290m. TM is currently engaged in Ijarah, Murabaha, Musharakah trading and equity market operations.

Rating Drivers

- **Portfolio:** Financing portfolio of the company depicted a reduction during the outgoing year given that growth remained constrained by insufficient funding. Murabaha financing continues to represent the largest chunk of the portfolio with it contributing almost two-thirds of total financings. Despite inherited infection in the financing portfolio, a single exposure does not exceed more than 10% of its equity base. Nonetheless, quality of the financing portfolio must be maintained in order to ensure sustainability and growth in earnings. In 2016, management anticipated growth in the financing portfolio funded through additional borrowings and recoveries from its infected portfolio; developments in this regard are yet to materialize.
- **Asset Quality:** During FY17, the modaraba made vigorous recovery efforts towards its infected portfolio. Given that its entire legacy portfolio was classified as non-performing, TM approached the clients through the legal system for settling of its outstanding exposure. However, actual recoveries remained lower than the projected levels on account of delay in these legal proceedings. Asset quality indicators, though slightly improved, continue to remain on the lower side.
- **Profitability:** Despite increasing infection and depleting financing portfolio, bottom line of the company was reported higher at Rs. 14.2m (FY16: Rs. 13.0m) on account of provisioning reversal on its portfolio for FY17. Going forward, recovery of projected NPLs and availability of fresh funding will remain key growth drivers for the modaraba.
- **Liquidity and Capitalization:** With no outstanding borrowings on the balance sheet, leverage indicators of the modaraba are reported on the lower side. Resource base of the modaraba is funded entirely through equity amounting to Rs. 315.2m (FY16: Rs. 310.2m) at end-FY17. Liquidity profile is also considered adequate with proportion of liquid assets to liabilities remaining above 1x.

JCR-VIS Credit Rating Company Limited

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

Trust Modaraba (TM)

Appendix I

FINANCIAL SUMMARY		<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	
Total Investments	20.1	20.6	12.3	6.3	
Total Assets*	331.2	324.8	325.0	322.0	
Borrowings	-	-	-	-	
Gross Financing	239.0	252.8	247.1	282.3	
<i>Ijarah</i>	60.8	64.5	67.9	74.2	
<i>Murabaha</i>	154.5	171.1	172.6	189.2	
<i>Musharaka</i>	23.7	16.5	6.6	18.9	
Tier-1 Equity	315.2	310.2	310.1	306.7	
<u>INCOME STATEMENT</u>	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	
Total Income	84.7	84.7	85.6	104.0	
Net (Provisioning) / Reversal	0.5	-0.1	5.2	(0.9)	
Operating Expenses	29.6	28.6	26.2	26.9	
Profit (Loss) Before Tax	14.2	13.0	17.4	20.2	
Profit (Loss) After Tax	14.2	13.0	17.4	20.2	
<u>RATIO ANALYSIS</u>	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	
Gross Infection (%)*	57.9	59.0	60.0	59.7	
Provisioning Coverage (%)*	25.2	29.1	30.0	30.3	
Net Infection (%)*	50.7	50.4	51.3	50.8	
Efficiency (%)	35.2	33.9	30.6	25.9	
ROA (%)	3.6	3.3	4.2	4.8	
ROE (%)	4.5	4.2	5.6	6.6	
Current Ratio (x)	4.8	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

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.

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

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

(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.

'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

'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.

JCR-VIS Credit Rating Company Limited

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

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				
	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	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.				
Probability of Default	JCR-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, JCR-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. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2018 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				