RATING REPORT

Allied Rental Modaraba

REPORT DATE:
December 31, 2015

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
Entity	A+	A+
Rating Date	*December 28, '15*	*December 29, '14*
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** A.F. Fergusons & Co., a member firm of Price Waterhouse Coopers (PWC)
Public Listed Company	**Chairman:** Mr. Khwaja Asif Rahman
Key Certificate holders (with stake 5% or more):	**Chief Executive Officer:** Mr. Murtaza Ahmed Ali
Allied Engineering and Services (Private) Limited – 37.12%	
Allied Engineering Management Company (Private) Limited – 20.00%	
Magenta International Limited – 32.94%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Non-Bank Financial Companies ***http://jcrvis.com.pk/Images/NBFC.pdf***
JCR-VIS Entity Rating Criteria: Modaraba Rating Scale ***http://www.jcrvis.com.pk/images/JCR-Mod.pdf***

Allied Rental Modaraba

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 RATIONALE

The assigned ratings reflect sound financial risk profile of the modaraba as evident from adequate liquidity profile and capitalization levels. Philosophy of the sponsors in maintaining gearing at conservative levels is also a key rating factor. Profitability and cash flow metrics of the company have witnessed pressure during FY15 and in the ongoing year but remain commensurate with the outstanding rating of the company. Ratings continue to derive strength from the arrangement with Allied Engineering Services Limited (AESL), which is the sole dealer for Caterpillar products in Pakistan and authorized dealer of other leading material handling equipment.

ARM continued to expand its rental fleet during FY15 with over Rs. 1.3b investment in rental assets. Overall revenues of the company depicted a growth of 6% during FY15 and amounted to Rs. 2.7b (FY14: Rs. 2.5b). In terms of segment wise break-up of revenues, decline was witnessed in Ijarah rental revenues from gensets business while growth was seen in logistics and material handling equipment/forklift segment. Decline in revenues from gensets business is attributable to non-availability of gas and pressure on financial performance of the textile sector where a sizeable portion of the company's gensets have been deployed. During 1QFY16, revenues have depicted a notable decline on account of low deployment of power generation fleet (both gas and diesel). Going forward, management expects proportion of revenues from logistics and material handling equipment/forklift segment to increase further. Moreover, revenue from gensets segment is also expected to pick pace again with the finalization of LNG prices. Management is also diversifying revenue streams through introduction of newer products (Zinc-Air batteries) which will facilitate in enhancing presence into new sectors and benefit from low furnace oil prices (furnace oil generators). Revenues from these segments are expected to start materializing from latter half of FY16.

While revenues of the company posted a modest growth during FY15, profitability witnessed a decline of 38% due to higher depreciation charge, decline in proportion of business from high margin segment (gensets), increase in finance cost and mismatch in revenue inflows and payment of Ijarah rentals. Profitability during FY16 is expected to remain under pressure due to low deployment levels in the gensets segment during 1HFY16. Future profitability will remain a function of deployment level of rental fleet, maintaining margins at adequate levels and revenues from new projects being undertaken by the management.

While profitability of the company witnessed a significant decline, decrease in Funds from Operations (FFO) was lower due to sizeable increase in depreciation during FY15. Given the decline in borrowings, FFO to total debt (including Ijarah financing) has increased to 0.60x (FY14: 0.57x) at end-June'2015. Liquidity profile of the company is satisfactory in view of adequate cash flow from operations. Ageing profile of receivables has weakened slightly at end-FY15; exposure to credit risk of ARM is considered manageable with assets written in the ownership of the modaraba itself. Debt & dividend payments and capex for FY16 are planned to be funded through a mix of internal generation, funds raised from rights issue and additional borrowings.

Capitalization levels have strengthened on a timeline basis on account of internal capital generation and funds raised through rights issue. Over the last few years, ARM has maintained leverage indicators at conservative levels. Leverage indicators have declined further at end-FY15 and are projected to be lower in future as the company retires existing outstanding debt.

The modaraba is in the process of implementing an ERP solution for its rental operations using Microsoft AX Dynamics platform with integrated add-on from German based computer software SYCOR for its rental business needs. The implementation is planned to be completed by end-FY16.

Allied Rental Modaraba (ARM) — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**Sep 30, 2015**	**Jun 30, 2015**	**Jun 30, 2014**	**Jun 30, 2013**
Ijarah Rentals Receivable	474.9	481.9	305.5	291.0
Ijarah Assets	5164.3	5102.1	4644.8	3677.5
Total Assets	5978.4	5933.9	5356.6	4439.6
Creditors, Accrued & Other Liabilities	471.7	441.9	419.7	831.0
Borrowings*	1666.9	1702.0	1729.2	1168.8
Equity	3456.8	3703.8	3118.7	2353.9
INCOME STATEMENT	**Sep 30, 2015**	**Jun 30, 2015**	**Jun 30, 2014**	**Jun 30, 2013**
Rental Income	557.8	2603.9	2450.1	2009.8
Operating Expenses	468.2	1987.0	1669.6	1331.4
Gross Profit	114.7	712.4	872.6	807.7
Finance Costs	47.2	209.2	165.7	94.7
Profit (Loss) Before & After Tax	45.4	403.5	651.4	631.8
RATIO ANALYSIS	**Sep 30, 2015**	**Jun 30, 2015**	**Jun 30, 2014**	**Jun 30, 2013**
FFO (Rs. In Millions)	920**	1174	1257	1039
FFO to Total Debt	0.55x**	0.60x	0.57x	0.72x
Gearing	0.48x	0.53x	0.71x	0.61x
Leverage	0.71x	0.66x	0.87x	1.0x
ROAA (%)	3.1**	7.2	13.4	18.2
ROAE (%)	5.1**	11.8	23.8	30.7

**** excluding off balance sheet financing*** ***** Annualized***

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.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Allied Rental Modaraba
Sector	Modaraba
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	See table below
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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
28-Dec-15	A+	A-1	Stable	Reaffirmed
29-Dec-14	A+	A-1	Stable	Reaffirmed
30-Jul-13	A+	A-1	Stable	Upgrade
04-Jul-12	A	A-2	Positive	Maintained
14-Mar-11	A	A-2	Stable	Upgrade