RATING REPORT

Allied Rental Modaraba

REPORT DATE:
October 2, 2017

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	**Long-term**	**Long-term**
Entity	A+	A+
Rating Date	*October 2, '17*	*December 28, '15*
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 – 49%	
Allied Engineering Management Company (Private) Limited – 20%	
Magenta International Limited – 22%	

APPLICABLE METHODOLOGY(IES)

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 Pakistan Stock Exchange.

RATING RATIONALE

Allied Rental Modaraba (ARM) is managed by Allied Engineering Management Company (Private) Limited, a wholly owned subsidiary of Allied Engineering & Services (Private) Limited (AESL). Ratings continue to derive strength from the prominent position ARM enjoys in the equipment rental market, sound management and financial profile. It also has a service and maintenance arrangement with AESL, which is the sole dealer for Caterpillar products in Pakistan. AESL is also an authorized distributor of renowned global construction and logistics equipment manufacturers such as SANY, Ingersoll Rand etc.

Key Rating Drivers:

Financing Portfolio: Financing portfolio of ARM is largely represented by its gensets business followed by construction and logistics segments; gensets contributes to more than half of the revenue mix. During FY17, demand of its gas engines increased on account of streamlined flow of LNG in northern areas of Pakistan. With higher demand from cement and real estate sectors, deployment of power generation equipments improved which resulted in higher share of power rentals in the total business. Rental sales of both inbound and outbound logistics segment also depicted a significant growth, contributing 36% of the total. Moreover, contribution of ARM's construction segment in overall business also increased on account of more infrastructure projects launched as an outcome of China Pakistan Economic Corridor (CPEC). As per management, demand for construction machineries and out bond logistics is expected to increase in the coming years.

Profitability: Although, profitability and cash flow metrics of the company witnessed pressure during FY16, the same picked pace in the outgoing year on the back of volumetric growth in business. In line with its diversification strategy, ARM reported a higher revenue base, depicting a growth of 16.1%. Going forward, management expects proportion of revenues from logistics and construction segments to increase further. Deployment level of rental fleet and revenues from logistics and construction projects will remain key drivers for future profitability.

Liquidity & Funding: Assigned ratings take into account adequate liquidity profile and robust cash flows of the Modaraba in view of strong internal cash generation and issuance of right certificates. With an improved bottom line, funds from operations increased to Rs. 1.3b (FY16: Rs. 1.0b) in FY17. Aging profile of receivables depicts weakening with 12% (FY16: 2%) of receivables in the more than 1 year bucket. As per management, these are expected to be paid off in the first half of FY18. Against a capex requirement of Rs. 1.5b, management believes that a significant amount of additional debt will not be required; given that liquidity will be generated from settling of these receivables. Exposure to credit risk of ARM is also considered manageable with assets written in the ownership of the modaraba itself. In line with the company's philosophy of conservative gearing levels, gearing and debt leverage of ARM stood low at 0.60x and 0.77x in FY17.

Capitalization: Ratings incorporate conservative risk profile of the Modaraba with improvement in equity levels over the years as a result of internal profit generation and issuances of right shares. Accounting for statutory reserves and unappropriated profit, net equity amounted to Rs. 4.7b (FY16: Rs. 4.4b), at end-June 2017. In line with its growth objectives, equity levels have been projected to increase significantly and reach Rs. 6b mark by end-June 2020.

Internal Controls: ARM is currently in the process of implementing an integrated ERP solution for its rental operations using Microsoft AX Dynamics platform coupled with German based computer software SYCOR for its rental business needs. Implementation of the same is expected to further improve control environment of the organization.

Allied Rental Modaraba (ARM) Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**Jun 30, 2017**	**Jun 30, 2016**	**Jun 30, 2015**	**Jun 30, 2014**
Cash and Bank Balances	307.4	57.4	74.5	48.0
Ijarah Rentals Receivable	987.9	724.3	481.9	305.5
Ijarah Assets	6,059.7	5,726.2	5,102.1	4,644.8
Total Assets	8,361.0	7,211.3	5,933.9	5,356.6
Creditors, Accrued & Other Liabilities	590.5	705.9	441.9	419.7
Borrowings*	2,837.8	1,900.6	1,702.0	1,729.2
Equity	4,658.6	4,382.2	3,703.8	3,118.7
INCOME STATEMENT	**Jun 30, 2017**	**Jun 30, 2016**	**Jun 30, 2015**	**Jun 30, 2014**
Rental Income	3,001.0	2,585.3	2,603.9	2,450.1
Operating Expenses	2,277.0	2,088.4	1,987.0	1,669.6
Gross Profit	839.3	598.5	712.4	872.6
Finance Costs	169.4	141.1	209.2	165.7
Profit (Loss) Before & After Tax	457.9	294.3	403.5	651.4
RATIO ANALYSIS	**Jun 30, 2017**	**Jun 30, 2016**	**Jun 30, 2015**	**Jun 30, 2014**
FFO (Rs. In Millions)	1,349.5	1,030.5	1,174	1,257
FFO to Total Debt	0.48x	0.54x	0.60x	0.57x
Gearing	0.60x	0.56x	0.53x	0.71x
Leverage	0.77x	0.65x	0.66x	0.87x
ROAA (%)	5.9	4.5	7.2	13.4
ROAE (%)	10.1	7.3	11.8	23.8

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

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
2-Oct-17	A+	A-1	Stable	Reaffirmed
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

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.
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