

# Modaraba

September 2016

# Modaraba Sector

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<b>Breakup of NBFIs' Assets</b>									
	<b>As at end-Jul16</b>			<b>As at end-Jun15</b>			<b>As at end-Jun14</b>		
<b>Sector</b>	<b>No of. Entities</b>	<b>Total Assets (PKR in bln)</b>	<b>Assets Share in NBFIs</b>	<b>No of. Entities</b>	<b>Total Assets (PKR in bln)</b>	<b>Assets Share in NBFIs</b>	<b>No of. Entities</b>	<b>Total Assets (PKR in bln)</b>	<b>Assets Share in NBFIs</b>
<b>Lending Institutions</b>									
Investment Banks	7	10	1%	7	10	1%	7	11	2%
Leasing Companies	8	43	5%	9	40	5%	8	36	6%
Modarabas	25	37	4%	25	31	4%	23	30	5%
<b>Lending Institutions' Total</b>	<b>40</b>	<b>90</b>	<b>10%</b>	<b>41</b>	<b>81</b>	<b>11%</b>	<b>38</b>	<b>77</b>	<b>12%</b>
<b>Investing Institutions</b>									
Asset Management Companies / Investment Advisor	23	39	4%	25	32	4%	25	30	5%
Mutual Funds	172	540	63%	167	492	67%	160	452	71%
Discretionary & Non-Discretionary Portfolios	-	143	17%	-	97	13%	-	72	11%
Pension Funds	17	20	2%	17	14	2%	13	8	1%
REITs	1	27	3%	1	23	3%	-	-	0%
<b>Investing Institutions' Total</b>	<b>213</b>	<b>769</b>	<b>90%</b>	<b>210</b>	<b>658</b>	<b>89%</b>	<b>198</b>	<b>562</b>	<b>88%</b>
<b>NBFIs' Total</b>	<b>253</b>	<b>859</b>	<b>100%</b>	<b>251</b>	<b>739</b>	<b>100%</b>	<b>236</b>	<b>639</b>	<b>100%</b>

➤ Merger of Standard Chartered Leasing with and into Orix Leasing

## Asset Allocation of Leasing Companies, Modarabas and Investment Banks

**July 2016**

Category	Cash & banks	Investments	Advances & Loans	Leases	Investment Property	Operating Assets	Other Assets	Total
<b>PKR in mln</b>								
Leasing companies	543	4,884	3,707	30,268	-	1,934	1,702	43,038
Modarabas	2,354	2,689	6,698	8,079	1,212	10,327	5,490	36,849
Investment Banks	145	1,267	1,091	1,532	105	3,211	2,503	9,854
<b>Total</b>	<b>3,042</b>	<b>8,840</b>	<b>11,496</b>	<b>39,879</b>	<b>1,317</b>	<b>15,472</b>	<b>9,695</b>	<b>89,741</b>

**June 2015**

Category	Cash & banks	Investments	Advances & Loans	Leases	Investment Property	Operating Assets	Other Assets	Total
<b>PKR in mln</b>								
Leasing companies	671	4,038	2,843	29,500	-	2,156	1,057	40,265
Modarabas	2,589	2,492	4,896	8,244	1,261	6,749	4,873	31,104
Investment Banks	117	2,569	1,403	1,603	105	1,997	2,374	10,168
<b>Total</b>	<b>3,377</b>	<b>9,099</b>	<b>9,142</b>	<b>39,347</b>	<b>1,366</b>	<b>10,902</b>	<b>8,304</b>	<b>81,537</b>

### Breakup of Deposits as at end-Jul16

Category	PKR in mln				Percentage of Total Deposit
	Leasing Companies	Modarabas	Investment Banks	Total	
Individual	8,534	3,135	662	12,332	66%
Corporate	846	811	1,344	3,001	16%
Trust	-	585	31	616	3%
Govt. Entities	-	429	1	430	2%
Financial Institutions	629	1,550	15	2,194	12%
<b>Total</b>	<b>10,009</b>	<b>6,510</b>	<b>2,053</b>	<b>18,572</b>	<b>100%</b>

Share in the Total Deposits	54%	35%	11%
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### Breakup of Deposits as at end-Jun15

Category	PKR in mln				Percentage of Total Deposit
	Leasing Companies	Modarabas	Investment Banks	Total	
Individual	8,452	3,815	1,023	13,290	73%
Corporate	975	1,466	522	2,962	16%
Trust	36	775	194	1,005	6%
Govt. Entities	-	-	822	822	5%
Financial Institutions	20	135	22	176	1%
<b>Total</b>	<b>9,483</b>	<b>6,190</b>	<b>2,583</b>	<b>18,256</b>	<b>100%</b>

Share in the Total Deposits	52%	34%	14%
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# Rated Universe

Sr #	Modarabas	Rating Agency	Current Ratings	Outlook	Latest Action	Last Rating Change
1	First Habib Modaraba	PACRA	AA+/A1+	Stable	Maintain (Jan-16)	Upgrade (July-09)
2	Orix Modaraba *	PACRA	AA+/A1+	Stable	Maintain (Jan-16) – Rating Watch	Upgrade (Dec-99)
3	Allied Rental Modaraba	JCR-VIS	A+/A1	Stable	Maintain (Dec-15)	Upgrade (July-13)
4	First National Bank Modaraba	JCR-VIS	BBB+/A3	Negative	Downgrade (Jun-16)	Downgrade (Jun-16)
5	Modaraba Al-Mali	PACRA	A-/A2	Stable	Maintain (Apr-16)	Same since Jun-06
6	First Punjab Modaraba	PACRA	BBB+/A2	Stable	Maintain (Feb-16)	Upgrade (Feb-15)
7	First Fidelity Leasing Modaraba	PACRA	BBB+/A2	Stable	Maintain (Sep-15)	Upgrade (Oct-11)
8	First Paramount Modaraba	JCR-VIS	BBB/A3	Positive	Maintain (Dec-15)	Upgrade (Aug-11)
9	KASB Modaraba	PACRA	BBB+/A2	Positive	Initial (Sep-15)	-

\* Formerly Standard Chartered Modaraba

# Industry – Key Developments

➤ Draft Amendments in Modaraba Companies and Modaraba Rules, 1981, have been issued in February 2016 and circulated among the stake holders for comments. The salient features of these rules are as follows:

1. A clause related to the appointment of Independent directors has been introduced in the following manner:
  - a) In case of deposit taking Modaraba, at least two or one third, whichever is higher
  - b) At least one or one third, whichever is higher in case of non-deposit taking Modaraba
2. The promoters or major shareholders of the Modaraba Management Company are also restricted to transfer their shares without prior approval of the Registrar.

# Industry – Key Developments

➤ Draft Bill for Amendments in Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 has been issued in June 2016. The most important change proposed in this bill is given below:

1. All Modarabas have been restricted to invite or accept any deposit. For this purpose, the term “deposit” means any deposit of money with , or any money borrowed or raised by a Modaraba but shall not include:
  - a) Redeemable Capital issued under section 120 of the Companies Ordinance 1984\*;
  - b) Funds obtained from a financial institution;

**Note\*:** Though Modarabas’ Certificates of Musharaka (CoMs) falls under the definition of redeemable capital as per the Companies Ordinance which gives the impression that Modarabas can raise deposit through CoMs. However, Modarabas issue CoMs under the Modaraba regulatory framework, upon specific requirements and arrangements made under the guidelines issued for the purpose, with the approval of the Religious Board for Modarabas and the SECP. Thus, the proposed amendments seeks to impose restriction on inviting or accepting all types of deposits.



# Industry – Key Developments

- c) Advance, application or subscription money for certification of the Modaraba;
- d) Cash margin or security deposit received in respect of finance provided by the Modaraba;
- e) Subordinated loans; and
- f) Funds obtained from major shareholders, sponsors and associated companies

# Challenges

## Current Challenges:

- Limited network as compared to Islamic banks
- High cost of funding
- Poor performance by most the Modarabas owing to weak business models
- Limited regulatory support

## Potential Risk Factor:

- Finalisation of the draft bill leading to restriction on public deposit taking would negatively impact the growth prospects and performance of the Modaraba industry. Moreover, this may lead to early deposit calls, while generating fund mobilization challenge as well.

# Sector Outlook | Developing

# Bibliography

1. **SECP Monthly Sector Summary** - <http://www.secp.gov.pk/data-and-statistics/nbfc/>
2. **SECP Regulation:**
  - ◆ 2016 Draft Amendments in Modaraba Rules 1981, and
  - ◆ 2016 Draft Bill for Amendments in Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980

<b>Analysts</b>	<b>Rana M. Nadeem</b> <b>Unit Head Ratings</b> nadeem@pacra.com	<b>Aisha Khalid</b> <b>Manager Ratings</b> aisha@pacra.com
<b>Contact Number: +92 42 3586 9504</b>		

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