



Rating Action

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Applicable Criteria and Related Research

- Modaraba - Viewpoint | Sep-16
- Non-Banking Finance Companies Methodology

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PACRA MAINTAINS RATINGS OF KASB MODARABA

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short-term entity ratings of KASB Modaraba (KASBM) at "BBB+" (Triple B Plus) and "A2" (A Two) respectively. The ratings denote a low expectation of credit risk emanating from an adequate capacity for timely payment of financial commitments.

The ratings reflect KASBM's adequate financial profile emanating from low-leveraged capital structure and reasonable diversity in the income stream translating into moderate profitability. In FY16, SECP has restricted the KASBM from raising new CoMs. This decision is subject to reconsideration depending on the performance of the Modaraba in FY16. Owing to this restriction, KASBM has experienced contraction in its CoMs. Although the Modaraba has managed it from in-house cash holdings, squeeze in assets was witnessed as the Modaraba has yet to raise funds from other sources. Meanwhile, the squeeze in business volumes is impacting the performance of the Modaraba. However, liquidity is being well managed. Moreover, good asset quality provides comfort.

To contain the funding challenge, the management is in the process of securing funding from sources other than deposits. However, the management's ability to establish a stable and continuous non-deposit funding stream is yet to be seen. The management intends to follow cautious growth stance with continued focus on asset quality. Diminishing Musharaka and agri based business are likely growth drivers.

The ratings are dependent on the management's ability to arrest the declining trend, indeed restore its profitability level. Vigilance in liquidity management remains important. Meanwhile, tapping new stable avenues of funding to improve business profile is important.

About the Modaraba: KASB Modaraba, established in 1990, is a perpetual, multi-purpose modaraba listed on the Karachi and Lahore Stock Exchanges. The Modaraba is primarily engaged in financing through Ijarah, Morabaha, Musharaka, Diminishing Musharaka, and Modaraba. Mr. Rashid Siddiqui is the Chief Executive Officer of KASBM since Sep-13. He has over 30 years of experience in Development and Investment Banking, Corporate Finance, Leasing, and Liability/Asset Management. He is supported by an experienced team. KASB Invest (Private) Limited (KIPL) - the management company - has 50% stake in the Modaraba. BankIslami Pakistan Limited (22%) and Sulaiman Ahmed Al-Hoqani (16%) are the other key shareholders in KASBM.

About the Modaraba Management Company: KIPL is majority owned by Mr. Muzaffar Ali Shah Bukhari (43%) and Mr. Mahmood Ali Shah Bukhari (43%). KIPL's Board of Directors comprises four members including the CEO of KASBM. Mr. Syed Waseem ul Haq Haqqie, a senior chartered accountant by profession, chairs the Board. KIPL is also managing two other Modarabas; First Pak Modaraba and First Prudential Modaraba.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

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