



The Pakistan Credit Rating Agency Limited

MODARABA AL-MALI

	NEW [APR-16]	PREVIOUS [JUN-15]
Long-Term	A-	A-
Short-Term	A2	A2
Outlook	Stable	Stable

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1. RATING ANALYSES
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Profile & Ownership

- Modaraba Al Mali (MAM) incorporated in 1987, is listed on Pakistan Stock Exchange.
- MAM has its head office in Karachi.
- BankIslami Modaraba Investments Limited (BIML) – wholly owned subsidiary of BankIslami Pakistan Limited owns 13% equity of MAM, whereas others certificates are distributed among NBFCs, joint stock companies, and individuals.
- MAM is a small size, multipurpose, perpetual modaraba.

Governance

- BoD comprises eight members, currently one position is vacant.
- Apart from two Independent members, board is dominated by executives of BIPL.
- Two board committees; Audit committee and Human Resource committee performs as per defined terms of reference.

Management

- Mr. Aziz Adil CEO of Modaraba Al Mali has two decades of diversified experience in the field of Islamic Finance.
- Management team carries good experience profile.
- Management committee comprises all department heads; TORs include monitoring of day- to- day affairs of the modaraba.

Risk Management Framework

- MAM’s Ijara financing book is gradually increasing (end-1HFY16: PKR 113mln, end-FY15: PKR 86mln, end-FY14: PKR 39mln). However owing to management’s cautious approach; the management expects to maintain good asset quality in new books.
- Asset quality in existing credit portfolio is largely maintained; non-performing loans are fully provided.
- Risk management systems needs consistent monitoring, given the management’s stance for growth.
- Gasoline station has witnessed slight increase in performance (end-FY15: PKR 2mln, end-FY14: PKR 1mln).

Performance

- During FY15, owing to increased Ijarah financing and gasoline station revival – MAM witnessed increase in its gross revenue (FY15: PKR 11mln; FY14: PKR 4mln).
- Controlled administrative costs and improved other income led to a net profit of PKR 5mln in FY15 (FY14: PKR 24mln loss including PKR 16mln loss from discontinued operations).
- Going forward, in addition to ijarah financing, management would build portfolio of diminishing musharika and wakala. Whereas, on non-funding side of the business, MAM’s is also seeking opportunities in SME market of Saudi Arabia.

Financial Risk

- MAM has maintained its equity based capital structure; additional funding needs are being met through musharika arrangements with management company – BMIL.

RATING RATIONALE

The ratings reflect low risk financial profile of Modaraba Al Mali owing to largely equity based capital structure. Modaraba is gradually building up its financing book, mainly deploying funds in vehicle financing. BankIslami Modaraba investments Limited; the management company of MAM facilitates modarabas' growth via recent musharakh financing. Although Ijarah book is increasing, MAM's non-additive and fully provided non-performing book depicts management's cautious strategy. Moreover, revival of gasoline station adds value into the non-funding side of modaraba. The management would maintain equity based capital structure; however funding support from the management company and sponsor bank would be available.

KEY RATING DRIVERS

The ratings are dependent on the management's ability to ensure consistent improvement in its performance. Maintaining healthy asset quality while maintaining its current equity based capital structure is important to maintain the ratings at current level.

INDUSTRY SNAPSHOT

- 25 Modarabas
- Intense competition from established financial institutions(FIs) owing to small network and similar nature of products being offered by these FIs
- High threat of new entrants owing to small capital investment
- Small share in Pakistan’s financing industry
- Draft Regulations 2015 circulated by SECP



Modaraba Al-Mali

BALANCE SHEET	31-Dec-15	30-Jun-15	30-Jun-14	30-Jun-13
	1HFY16	Annual	Annual	Annual
Assets				
Earning Assets				
Ijarah Finance	113	86	39	23
Other Earning Assets	74	82	100	98
Non Earning Assets				
Non-Performing Finances	57	38	69	118
Non-Performing Finances	59	59	67	36
<i>Less: Accumulated provision (specific/pru</i>	<i>(59)</i>	<i>(59)</i>	<i>(67)</i>	<i>(36)</i>
Total Assets	243	206	208	239
Liabilities				
Total Funding	65	28	28	34
Other Liabilities	21	19	26	26
Equity				
Total Equity	157	159	154	179
INCOME STATEMENT				
Gross Revenue	5	11	4	5
Total Net Revenue	9	21	10	17
Operating Expenses	7	22	19	21
Net Income	3	5	(10)	(5)
Ratio Analysis				
Cost-to-Total Net Revenue	78.3%	108.3%	200.3%	129.2%
Equity / Total Assets	64.7%	77.2%	73.9%	74.7%
Impaired Lending / Gross Finances	34.4%	40.8%	63.5%	61.4%
Loan Loss Provisions / Impaired Lending	100.0%	100.0%	100.0%	99.9%



STANDARD RATING SCALES & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>High credit risk.</p> <p>A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.</p>	
D	<p>Obligations are currently in default.</p>	

<p>Rating Watch</p> <p>Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p>Outlook (Stable, Positive, Negative, Developing)</p> <p>Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.</p>	<p>Suspension</p> <p>It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.</p>	<p>Withdrawn</p> <p>A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.</p>
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Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Regulatory and Supplementary Disclosure

[Rated Entity](#)

Name of Rated Entity
Sector
Type of Relationship

Modaraba Al-Mali
Modaraba
Solicited

[Purpose of the Rating](#)

Independent Risk Assessment

[Rating History](#)

Dissemination Date	Long Term	Short Term	Outlook	Action
9-Jun-15	A-	A2	Stable	Maintain
30-Jun-14	A-	A2	Stable	Maintain
17-May-13	A-	A2	Stable	Maintain
30-Mar-12	A-	A2	Stable	Maintain
7-Jan-11	A-	A2	Stable	Maintain
30-Sep-09	A-	A2	Negative	Maintain

[Related Criteria and Research](#)

Methodology:
Related Research

Non- Banking Finance Companies Methodology
Modaraba - Viewpoint | Sep-15

[Rating Analysts](#)

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the

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PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct

relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

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[Probability of Default \(PD\)](#)

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transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from

PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past.