

Modaraba Al-Mali (MAM)

Ratings (June 2006)

Modaraba Al-Mali

Entity	New	Previous
Long Term	A-	BBB+
Short Term	A2	A2

Financial Data

	PKR (mln)	
	31-March-06	30-June-05
Total Assets	482.2	338.3
Equity	254.5	236.8
Profit after Tax	17.7	13.9
ROE %	9.60*	5.89
ROA %	5.75*	4.21
Equity/Assets %	52.79	70.00

* Figures have been annualised for meaningful comparison.

Analysts

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Rating Rationale

Assessment

- MAM's ratings reflect the execution of the management's well-conceived business model, which has enabled the Modaraba to fortify its earnings without increasing the potential risk. At the same time, the Modaraba's association with JS Group is considered as a key rating factor.
- During the current year, the Modaraba's business strategy is geared towards focusing on two broad areas (a) leasing, whereby the focus remains on operating lease in telecom sector and (b) *morabah* financing in which the major chunk is represented by Morabah Share Financing (MSF), yielding relatively higher returns. The implementation of the management's business model has started yielding returns in the form of gradual augmentation of the revenue stream. Meanwhile, other operating income, mainly through venture capital and ready future spread transactions, continues to supplement the bottom line.
- Going forward, the management plans to continue with leveraged volume expansion while focusing on tower site sharing business (operating lease), and MSF benefiting from the JS Groups inherent strength in capital market operations. Although the revenue contribution from operating lease remains moderate, contribution from this source is expected to increase substantially in the coming years, with the capacity addition and sharing by more than one operator. While the profitability augmentation would mainly be driven by core operations, income from other operations would also continue to support the bottom line.
- The Modaraba maintains overall good asset quality, with net NPLs of around 2% at end-March06. Considering the management's plan of restricting its credit exposure to other than its identified low-risk avenues, the potential credit risk is expected to remain low, going forward. The Modaraba, as a policy, is not involved in the proprietary trading. While the Modaraba will continue investing in venture capital business, the exposure will be capped at 25% of equity as a risk management measure.
- MAM primarily relied on its own equity base to fund its operations in the past. However, with an aim to benefit from leveraged volume expansion, the Modaraba has now issued certificates of *musharika* (COMs) and negotiated *shariah* compliant credit lines from a number of financial institutions. Going forward, the Modaraba plans to continue mobilizing funds mainly through a combination of COMs and *morabah* financing to facilitate its future growth. With its strong capitalization and substantial borrowing capacity the Modaraba has strong capacity to raise additional funds for future growth.

Background

- Established in 1987, MAM is a perpetual multi-purpose Modaraba, listed on all bourses of Pakistan. It is primarily engaged in the business of operating leasing and *morabaha* financing and operates from its head office in Karachi.
- JS Finance Limited, with 11% equity stake, manages the Modaraba. The management company was acquired by JS Group in collaboration with the DCD Group in FY05. JS Group holds 75% of controlling shares while the other 25% is held by the DCD Group. JS Finance Limited is planning to float specific purpose modarabas in order to carry property business, which will strengthen the earning base of the management company. Meanwhile, the management company is in the process of merging Modaraba Al Tijarah – another Modaraba under management – into MAM. This merger will strengthen the equity base of MAM by PKR 2.2mln.
- JS Group is a diversified conglomerate with main interest in investment banking, equity trading and asset management. DCD Group is a multinational group with operations in USA, UK, South Africa, India, Hong Kong and UAE. The Group is active in trade financing and real estate investments. Its association with JS Finance can help the management to explore opportunities in the real estate business more effectively.
- The chief executive officer, a qualified CFA and CMA, joined the Modaraba in December 2004. He possesses over 15 years of work experience and enjoys complete operational autonomy.