

RATINGS (JANUARY 2011)
MODARABA AL MALI [MAM]

ENTITY	NEW	PREVIOUS
LONG TERM	A-	A-
SHORT TERM	A2	A2
OUTLOOK	-	Negative

MAM L.T. ENTITY RATING HISTORY

Rating	Jun 2006	Apr 2007	Aug 2008	Sep 2009	Dec 2010
A					
A-					
BBB+					
BBB					

FINANCIAL DATA

PKR (MLN)

	Jun-10	Jun-09
Total Assets	248.9	262.9
Net Non performing finances	41.6	42.1
Equity	198.5	211.5
Profit after tax	(12.9)	(22.3)
ROE (%)	(6.0)	(9.9)
Equity/ Assets (%)	79.8	80.4

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RATING RATIONALE & KEY DRIVERS

- The ratings reflect the strength derived by MAM from its association with one of the leading Islamic banks – BankIslami Pakistan Limited. MAM's business risk profile has started seeing gradual improvement, as the Modaraba's maintenance services business is expanding to generate profits. Moreover, other business segments – with the management's concerted efforts – are indicating signs of revival, emanating from encouraging prospects in key business niches. In addition, the ratings recognize MAM's predominantly equity based capital structure engendering relatively strong risk absorption capacity.
- The ratings are dependent on the management's ability to demonstrate sustained improvement in MAM's revenue streams and hence profitability. Meanwhile, any adverse changes in the socio-economic environment impacting the Modaraba's business risk profile and/or its risk absorption capacity would have negative implications for the ratings.

ASSESSMENT

- MAM's core income sources can be broadly categorized in two main categories: (I) Non-fund based – comprising mainly Tower leases (30% of gross finances), Maintenance services business (46%), and (II) Fund based – comprising Musharaka lending (12%) and Ijarah leases (7%). The Modaraba has been focussing on expanding its non-fund based revenue sources while selectively engaging in fund based financing as illustrated by the limited disbursements seen over the past two years. MAM's gasoline station has also been commissioned and is expected to contribute towards income stream, going forward.
- The Modaraba's gasoline station, after significant delays, came online post Jun10 in agreement with Byco Petroleum Pakistan Limited. During the later part of FY09, MAM initiated focus on providing operational and maintenance services of office premises & generators. In this regard, the Modaraba holds an agreement with Bank Islami for servicing of 74 branches located within urban centres. The scope of services includes routine and periodic maintenance for generator, split air-conditioner, electrical & general and branch fascia, available on-call within cities and on a notice for branches located in suburban areas. The Modaraba has an agreement with a telecom provider for refuelling of its generators at mobile towers and is in negotiation for expanding this service to other telecom and broadband players. In the first full year of operation, this business segment achieved break-even and is expected to contribute positively towards the Modaraba's income stream, going forward. In addition, the tower leasing business has started indicating signs of revival.
- During FY10, MAM's gross revenues experienced a significant jump, attributable to sizeable contribution from the maintenance business, while income from other businesses remained largely the same. On the other hand, MAM saw an escalation in both personal as well as administrative expenses, due to the hiring of additional human resource and one-off expenditure needed to initiate the maintenance service line. This caused the Modaraba to report a negative operating profit for the year. Nevertheless, lower provisioning expense as NPL portfolio aged enabled MAM to limit losses to PKR 12.9mln compared to a loss of PKR 22.3mln last year. During 1QFY11, the Modaraba was able to report a small bottom line as the maintenance business started yielding incremental revenue, supplemented by additional rental on tower lease.
- Going forward, MAM anticipates gradual recovery in its revenue base, mainly in anticipation of expansion in maintenance business and pick up in tower business. The company has sought nine new tenants for its mobile towers, with emphasis being on attracting good credit quality clientele. The occupancy rate – a measure of capacity utilization for mobile towers – increased to 62% in FY10 as compared to 35% in FY09. For the maintenance business, the Modaraba has engaged a team of ~30 individuals. Although there is sizeable growth potential in this segment, concerted efforts are needed to tap new clients while ensuring acceptable levels of service across the board. Meanwhile, growth in the gasoline segment is expected to remain limited.
- The Modaraba has implemented a customized financial application, designed in C+ .Net, to manage its routine business operations, comprising accounts, finance, and administration modules. For its fuelling and maintenance business, MAM is using a web application integrated across regional offices. Periodic physical inspection is conducted to maintain strict control on the quality and quantity of tangible assets in the maintenance business.
- During FY10, the overall impaired lending portfolio of the Modaraba witnessed a slight decrease in-line with the consolidation in the finances portfolio and materialization of some recovery efforts, mainly in pending Morabaha dues. MAM has fully provided for all delinquent assets and expects recovery to pick up, going forward, as settlement negotiations with some clients are underway.
- MAM has predominantly an equity based capital structure engendering strong risk absorption capacity. The total debt to equity ratio stands at 3.6% (FY09: 5.9%) and thus provides sufficient cushion. Going forward, the gearing level is not expected to witness any substantial rise.

PROFILE

- Modaraba Al-Mali (MAM), incorporated in 1987, is a perpetual multi-purpose Modaraba listed on all three bourses of Pakistan. BankIslami Pakistan Limited owns BankIslami Modaraba Investments Limited, the management company of the Modaraba, which has ~13% equity stake in MAM as at end-Jun10.
- BankIslami Pakistan Limited, a scheduled Islamic bank and rated 'A' (Single A) by PACRA, commenced operations in April 2006 and is listed on the Karachi Stock Exchange. BIPL is a joint venture among three financially sound business groups, holding a cumulative of 65% stake, namely DCD Group, UK, Dubai Bank PSJC, and Jahangir Siddiqui & Company Limited.
- MAM's Board of Directors comprises eight members and is dominated by employees of BIPL, including the President of the bank. The CEO of MAM, Mr. Zulfiqar Ali, an ACMA, possesses over 15 years of experience and has been associated with the Modaraba since long.