

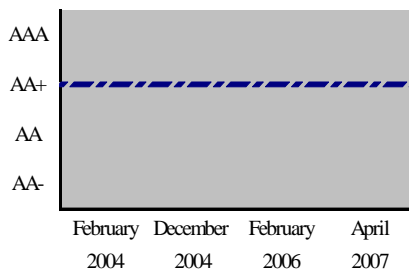
## Standard Chartered Modaraba (SCM)

### Ratings (April 2007)

#### Standard Chartered Modaraba

Entity	New	Previous
Long Term	AA+	AA+
Short Term	A1+	A1+

### L.T. Entity Rating History



### Financial Data

#### PKR (mln)

	30-June-06	30-June-05
Total Assets	2,557.6	2,725.3
Equity	816.9	755.4
Profit after Tax	61.5	95.6
ROA %	2.3	3.8
ROE %	7.8	12.8
Equity/Assets %	31.9	27.7

### Analysts

Aisha Khalid  
+92 42 5869504  
aisha@pacra.com

Jhangeer Hanif  
+92 42 5869504  
jhangeer@pacra.com

### Assessment

- The ratings reflect SCM's sound capital structure and sustained excellent asset quality, though the Modaraba's profitability has remained relatively subdued recently. At the same time, the strong support factor drawn from affiliation with the Standard Chartered Group continues to be the key rating factor.
- During FY06, SCM's overall financing portfolio experienced slight reduction primarily because of low lease disbursements as against substantial growth in FY05. Although musharika financing maintained modest growth, it still constitutes a nominal portion of the total. In addition to decrease in earning assets, SCM experienced substantial squeeze in spreads during FY06 with further erosion of profitability.
- Going forward, the management is targeting a modest growth in its business volume, while focusing on improving spreads. This strategy has already led to improving trends in the current year. Lease disbursement during the period is in line with targets and the Modaraba is expected to achieve a modest expansion. The management is working on developing new products focusing mainly on SME and consumer segments to support its growth initiatives in an increasingly competitive operating environment.
- The Modaraba continued to maintain sector diversity. The maximum concentration in any sector was 16% (fuel & energy sector) of the net portfolio. However, SCM has relatively high individual concentration with top 14 exposures (lease size of more than PKR 50 mln) comprising 42% of the total lease portfolio at end FY06.
- SCM has very good asset quality as reflected by absence of non performing loans. The outstanding asset quality is an outcome of a rigorous process of client identification, evaluation and effective post disbursement monitoring in addition to strong internal control systems. SCM as a policy provides general provisioning against its net exposure in retail lease portfolio, thereby providing the Modaraba an additional cushion against any risk of loss.
- SCM mobilizes funds through diversified sources, including COMs and credit facilities from banks. Musharika financing, from financial institutions has been the major source of funding in the recent years. However, the Modaraba has been successful in building a sizeable portfolio of Certificates of Musharika (COMs) mainly mobilised from individuals capitalising on the geographical outreach and strong franchise of Standard Chartered Bank. At the same time, COMs have provided the Modaraba with stable medium-term funds. Moreover, the contribution of individuals is increasing and currently consisting over 90% of total COMs. Going forward, the management plans to further improve the contribution of COMs in its total funding base. To achieve this objective, while further improving features of its COMs, it is primarily focusing on increasing the availability of these certificates to individuals by increasing the number of SCBPL's branches offering COMs.
- SCM continues to distribute 90% of profits after making the required appropriation towards statutory reserves as dividend to avail the tax exemption. Hence, any material growth in assets would primarily be as a function of leveraging. However, the Modaraba maintains a conservative capital structure and given SCM's plans of modest growth, it is unlikely to change.

### Rating Outlook & Key Rating Drivers

- These ratings are dependent on continuing support of SC to the Modaraba in the form of human and infrastructure resources and risk management framework. Meanwhile, the management's success in improving the Modaraba's profitability, particularly in comparison with its peers, is critical for ratings.

### PROFILE

- Established in 1987, SCM is a perpetual, multi-purpose Modaraba, listed on the Karachi and Lahore stock exchanges. It is primarily engaged in ijarah (lease) financing and operates from offices in Karachi, Lahore and Islamabad.
- Standard Chartered Services of Pakistan (Pvt.) Limited – a wholly owned subsidiary of Standard Chartered Bank Pakistan Limited (SCBPL) – manages the Modaraba. SCBPL – around 99% owned subsidiary of Standard Chartered Bank, UK (SCB) – is Pakistan's sixth largest bank, in terms of assets, and has a network of 115 branches across Pakistan. SCB is a London based international bank with a significant focus on emerging markets. It has a network of over 1,400 branches (including subsidiaries, associates and joint ventures) in over 50 countries. PACRA has assigned a long-term rating of "AAA" (Triple A) and a short-term rating of "A1+" (A One Plus) to the bank.
- The chief executive of SCBPL chairs the six-member Board of the Modaraba management company. All members of the board are nominees of SC. The Managing Director possesses over twenty-eight years of experience with leading multinational corporates and institutions.