



The Pakistan Credit Rating Agency Limited

## Rating Report

### Modaraba Al-Mali

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Mar-2022	BBB+	A2	Developing	Maintain	Yes
26-Mar-2021	BBB+	A2	Developing	Maintain	Yes
15-Apr-2020	BBB+	A2	Stable	Maintain	Yes
27-Sep-2019	BBB+	A2	Stable	Maintain	Yes
02-Apr-2019	BBB+	A2	Stable	Downgrade	-
22-Nov-2018	A-	A2	Stable	Maintain	-
29-Jun-2018	A-	A2	Stable	Maintain	-
26-Sep-2017	A-	A2	Stable	Maintain	-
20-Apr-2017	A-	A2	Stable	Maintain	-
20-Apr-2016	A-	A2	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

Modaraba Al Mali (“MAM” or “the Modaraba”), owned and managed by AssetPlex Limited (formerly known as Bank Islami Investments Limited), has been operating as a small player in the Modaraba Industry. Up in the course of acquisition, the developments at sponsorship level have borne fruit, as new sponsors of MAM have emerged as a key resource, possessing good industrial and financial acumen. The new sponsorship and management have provided fresh and strategic redirection to the operations of the Modaraba through planned cessation of existing business lines (Islamic Finance) and launching IPO Support Fund, Underwriting & Business Revival Activities and Strategic Investments. Developments in the business plan had been long outstanding and its provision bodes as a positive omen for operational development of the Modaraba. An initiative towards the proposed business plan is in progress, with the merger of MAM with LSE Financial Services being under consideration. The envisioned strategic plans of the sponsors are to gauge prospects of the business. However, conversion of potential business projects into cash generating units remain yet to unfold.

In view of the operational developments, the Modaraba continues to generate a nominal topline channeled through its depleting Islamic financing products and fuel station. New revenue lines are expected to emerge in view of the proposed business plans. Improvement in the financial performance remains crucial for operational sustainability. The rating takes comfort from the equity-based capital structure maintained by the Modaraba, indicating a low financial risk profile. Improvement in the equity profile has been observed through the period as a rights issue further supplemented the Modaraba’s financial profile, however, further equity is necessary in order to materialize the proposed business lines.

The ratings of the Modaraba continues to base upon the sustainability of its risk profile. Sponsor support and management performance, actualized through establishment of profit generating business lines remain crucial for the ratings. Any change in the funding mix may have a potentially adverse impact on the financial profile of MAM.

#### Disclosure

<b>Name of Rated Entity</b>	Modaraba Al-Mali
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Non-Banking Finance Companies Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Modaraba & NBFCs(Apr-21)
<b>Rating Analysts</b>	Abubakar Shabbir   abubakar.Shabbir@pacra.com   +92-42-35869504

## Profile

**Structure** Modaraba Al-Mali (MAM) is a Non-Banking Islamic Financial Institution, public listed on the Pakistan Stock Exchange with a trading symbol of MODAM.

**Background** MAM was launched in 1987 as one of the pioneering modaraba to undertake financing business on the principles of Islamic Shari'ah. In light of the recent acquisition, Bank Islami Modaraba Investments Limited has been rebranded as Asset Plex Modaraba Management Limited, and shall continue operations as the management company of the Modaraba.

**Operations** Modaraba Al Mali was previously associated with Ijarah Financing and Diminishing Musharakah arrangements, however the business objectives of the Modaraba have been revised owing to the change in ownership structure.

## Ownership

**Ownership Structure** AssetPlex Modaraba Management Company Limited (formerly Bank Islami Modaraba Investments Limited) (AMML) has 33.2% equity stake in MAM, formerly under the control of Bank Islami, however, it is being rebranded as Asset Plex Modaraba Management Limited. The remaining certificate holding of MAM is distributed among a consortium of NIT, NBFCs, joint stock companies, and individuals.

**Stability** AssetPlex Modaraba Management Company has stakeholders in the form of leading producers of Medical & Industrial Gases and Glass Tubes & Ampoules (Ghani Group), having foundational underpinnings and faith in Islamic Finance.

**Business Acumen** Ghani Group has obtained major shareholding of the Modaraba, with Mr. Atique Ahmed Khan holding 70% shareholding, whereas secondary ownership is being held by Mr. Aftab Ahmad Chaudhry holding 30% stake in the Modaraba Company. Ghani Group of Companies, commonly known as Ghani Group, is a Pakistani multinational conglomerate company headquartered in Lahore, Pakistan.

**Financial Strength** Ghani Global Group includes a group of companies engaged in various business activities such as Ghani Glass and Ghani Gases, prominent companies in their respective industries. Ghani Holdings, has an asset base of PKR 3.8bln for FY21.

## Governance

**Board Structure** In view of the sponsor change, the board structure of the Company has been revised. The updated board structure comprises of seven members. Mr. Abdul Qadir Memon holds the title of "Board Chairman". The board comprises of individuals from various fields providing a diverse experienced board.

**Members' Profile** Mr. Abdul Qadir, is banking veteran, with a career spanning over 36 years. He has served in various senior management positions throughout his tenure, with prominent positions held in Bank Indosuez, Habib Bank AG Zurich, HBZ Bank Limited, South Africa. Four board meetings are conducted during the year, with perfect attendance being observed in majority of meetings.

**Board Effectiveness** In order to maintain effective oversight of the Modaraba's operations, four board level committees have been established, namely; i) Audit Committee ii) HR & Remuneration Committee iii) Risk Committee iv) Nomination Committee, with each committee being chaired by an independent board member.

**Financial Transparency** The financial statements of MAM for FY21 have been audited without any qualification by M/S A.F Fergusons & Co. Chartered Accountants.

## Management

**Organizational Structure** MAM has a well-defined organogram with its operations divided into three departments, namely (i) Accounts, (ii) Credit/Recovery/ Operations, and IT \Admin\HR. Department operations are directly communicated to the CEO through their respective departmental heads.

**Management Team** Mr. Aftab Ahmad Chaudhry has formerly been the longest serving Managing Director of Lahore and Islamabad Stock Exchanges. Further, he has headed the South Asian Federation of Exchanges- the regional exchange industry association, representing 13 stock & commodity exchanges of the South Asian countries.

**Effectiveness** The management has developed a broad "Code of Conduct" which outlines MAM's standard of conduct and the Modaraba's compliance with different stakeholder's expectations including certificate holders, employees, regulators and community at large.

**MIS** The Modaraba has implemented a customized financial application, designed in C Dot Net, to manage its routine business operations, comprising accounts, finance, and administration modules.

**Risk Management Framework** The objective of FRM is risk mitigation and to monitor it prudently. The management has maintained good asset quality in its book. The Modaraba has fully provided all delinquent assets. The management expects recovery to pick up, going forward, as settlement negotiations with some clients are underway.

## Business Risk

**Industry Dynamics** The business environment in the country remained challenging, measures taken by the Government towards economic stabilization has impacted overall business sentiments. Due to adverse economic indicators in recent periods, the scenario has turned to a gloomy outlook.

**Relative Position** The asset base of Modaraba is relatively low in comparison to other players of the industry. Modaraba is lagging far behind in relative peer universe having similar rating characteristics. In light of the recent change in the operational nature of the Modaraba, revitalization of business position is foreseen.

**Revenues** Revenue streams of the Company continue to be in-flown through fuel station as well as an additional line explored through investment in equity securities. Income from fuel station generated PKR 5.3mln whereas the realized and unrealized appreciation on investments proved to be a supporting pillar to the declining topline. Minor comfort was derived from income on Diminishing Musharaka (PKR 0.1mln) and Income from bank deposits (PKR 0.3mln).

**Performance** The performance of the Modaraba has been sub-par with respect to other Modarabas in the industry. The profitability of the Company has decreased to PKR 0.1mln (6MFY22: PKR 5.0mln). Key contributors to such a decline were the enhanced administrative expenses, particularly legal costs, as well as the recent tax implications. The prospective business plans are considered key for overturn of such a declining profitability trend.

**Sustainability** The sustainability of operations relies on the imminent merger of MAM with LSE Financial Services. The management has presented a business plan for the future operations of the Modaraba which seems plausible given the recent equity injection and gradual progression of the Islamic venture capital initiatives.

## Financial Risk

**Credit Risk** The credit risk exposure of modaraba is mainly from Ijara & Musharkah financing book. Stable stream of income and significant growth of assets gives reassurance of the liability coverage. There is no change in Ijara financing since end Dec 20. The credit risk exposure of modaraba is mainly from Ijara and Musharkah financing book. To mitigate the risk, Modaraba has followed a cautious approach and deposited money with banks having credit ratings of 'A' or above.

**Market Risk** MAM focuses on core financing business and has no exposure to equity/debt investment. Consequently, MAM is not exposed to market risk which is positive factor in current scenario. However, it restricts Modaraba's growth opportunities to some extent.

**Liquidity And Funding** The management intends to eliminate its Ijarah and Musharakah portfolio, while focusing on investing in Islamic venture capital avenues. In accordance, an equity injection of PKR 144.5mln in the form of rights issue shares. Furthermore, an investment portfolio in the form equity investments in listed companies have occurred during the period in order to generate a dividend income stream.

**Capitalization** The MAM has an equity-based capital structure as evident from its equity to total assets ratio i.e. 89% as at 6MFY22 (FY21: 93%), thus it is exposed to minimal credit default risk.



**Modaraba Al Mali  
Listed Public Limited**

PKR mln

**Dec-21      Jun-21      Jun-20      Jun-19**  
**6M          12M          12M          12M**

**A BALANCE SHEET**

1 Total Finance-net	6	8	32	35
2 Investments	64	1	-	-
3 Other Earning Assets	2	50	62	47
4 Non-Earning Assets	389	230	178	179
5 Non-Performing Finances-net	0	0	0	0
<b>Total Assets</b>	<b>460</b>	<b>289</b>	<b>272</b>	<b>261</b>
6 Funding	6	4	8	10
7 Other Liabilities	47	16	16	17
<b>Total Liabilities</b>	<b>53</b>	<b>20</b>	<b>24</b>	<b>28</b>
<b>Equity</b>	<b>407</b>	<b>270</b>	<b>249</b>	<b>233</b>

**B INCOME STATEMENT**

1 Mark Up Earned	6	16	17	31
2 Mark Up Expensed	(3)	(6)	(6)	(13)
3 Non Mark Up Income	17	32	9	5
<b>Total Income</b>	<b>19</b>	<b>42</b>	<b>20</b>	<b>24</b>
4 Non-Mark Up Expenses	(14)	(8)	(7)	(8)
5 Provisions/Write offs/Reversals	-	-	7	(7)
<b>Pre-Tax Profit</b>	<b>5</b>	<b>35</b>	<b>20</b>	<b>9</b>
6 Taxes	(5)	(1)	(1)	(1)
<b>Profit After Tax</b>	<b>0</b>	<b>34</b>	<b>19</b>	<b>8</b>

**C RATIO ANALYSIS**

**1 PERFORMANCE**

a Non-Mark Up Expenses / Total Income	74.6%	18.1%	34.3%	33.8%
b ROE	0.0%	13.0%	7.9%	3.4%

**2 CREDIT RISK**

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	98.2%	204.9%	405.7%	338.1%
b Accumulated Provisions / Non-Performing Advances	0.0%	0.0%	0.0%	0.0%

**3 FUNDING & LIQUIDITY**

a Liquid Assets / Funding	3026.0%	1411.2%	812.0%	469.3%
b Borrowings from Banks and Other Financial Institutes / Funding	0.0%	0.0%	0.0%	0.0%

**4 MARKET RISK**

a Investments / Equity	15.6%	0.5%	0.0%	0.0%
b (Equity Investments + Related Party) / Equity	15.6%	0.5%	0.0%	0.0%

**5 CAPITALIZATION**

a Equity / Total Assets (D+E+F)	88.5%	93.2%	91.3%	89.4%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	0.0%	13.6%	8.1%	3.4%

**Credit Rating**

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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	<b>Moderate risk.</b> Possibility of credit risk developing. 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.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk “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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**Outlook (Stable, Positive, Negative, Developing)** 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’.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** 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, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

### **2) Conflict of Interest**

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

### **Probability of Default**

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's 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 | Chapter III | 14-(F-VII)

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