

Press Release

VIS Reaffirms Entity Ratings of Sindh Modaraba

Karachi, June 29th, 2021: VIS Credit Rating Company Ltd. (VIS) has reaffirmed the entity ratings of 'A+/A-1' (Single A Plus/A-One) assigned to Sindh Modaraba (SM). Outlook on the assigned ratings is 'Stable' The long term rating of 'A+' signifies good credit quality and adequate protection factors. Risk factors may vary with possible changes in the economy. The short-term rating of 'A-1' signifies high certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Previous rating action was announced on June 30, 2020.

The ratings derive strength from the indirect ownership of GoS through Sindh Modaraba Management Ltd. The sponsor has demonstrated both technical and financial support to SM. And VIS expects the support to continue in future as well. The ongoing year witnessed changes in the senior management and strengthening of the management teams in support of overall entity's business risk profile. The assigned ratings incorporate efforts to strengthen governance and risk management framework which is considered important for ratings.

Despite increase in provisions, the modarba was able to grow its profitability during FY20 vis-à-vis FY19, mainly driven by income from Diminishing Musharka and a significant rise in income from bank deposits. However, in the 9MFY21 profitability has been impacted due to sharp decline in interest rates which has reduced returns over investments as well as on financing portfolio. Credit risk of financing portfolio also remains elevated amid COVID -19 impact and related deferments. VIS expects provisioning requirements will keep profitability under pressure in the ongoing year. Management envisages growth in its financing portfolio going forward, however maintaining asset quality and cost control will remain a key factor.

Liquidity profile is supported by the presence of sizable liquid assets against negligible liabilities. At present, the Modaraba has sufficient funds from the sponsor for deployment without mobilizing any deposits or borrowings in the medium term. Overall capitalization indicators remain sound from ratings perspective.

For further information on this rating announcement, please contact Ms. Sara Ahmed or the undersigned (Ext: 207) at 92-21-35311861-70 or fax to 92-21-35311872-3.

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Applicable Rating Criteria: Non-Bank Financial Companies (March 2020)
<http://vis.com.pk/kc-meth.aspx>