

Press Release

VIS Reaffirms Entity Ratings of Sindh Modaraba

Karachi, September 6, 2023: VIS Credit Ratings Company Ltd. (VIS) has maintained entity ratings of 'A+/A-1' (Single A Plus/A-One) to Sindh Modaraba (SM). Medium to long-term ratings of 'A+' signifies good credit quality with adequate protection factors. Risk factors are considered variable if changes occur in the economy. Short term ratings of 'A-1' denote high certainty of timely payment, excellent liquidity factors supported by good fundamental protection factors; risk factors are minor. Outlook on the assigned ratings is 'Stable'. The previous rating action was announced on June 30, 2022.

Assigned ratings are underpinned by sub-sovereign support of the Government of Sindh (GoS) as the majority owner through Sindh Modaraba Management Limited (SMML). GoS possesses 94.3% shares in SM via SMML. Technical and financial assistance through sponsor support is expected to continue.

The Company's financing portfolio has demonstrated measured growth in FY22 and 9MFY23. This approach is characterized by caution in light of the escalated credit risk prevailing in the economy. The Company has strategically emphasized focus on building the investment portfolio for optimal returns within acceptable risk parameters. Therefore, despite challenges, the credit risk profile of the investment portfolio has slightly improved with decline in concentration within high-risk sectors and a concurrent augmentation of exposure to sectors with lower risk profiles. However, elevated per-party risk remains an area of concern.

While improvement was noted in recoveries, timebound provisioning against existing non-performing names kept pressure on profitability. In addition, impact of income tax on Modaraba profits since July 2021 further deteriorated net margins. Despite these challenges, the liquidity and capitalization profile of the Company is a source of comfort, with increased focus on short-term portfolio enhancing liquidity and sponsor support reinforcing capitalization. Overall, continued GoS support and effective risk management will remain crucial for ratings going forward.

For further information on this ratings announcement, please contact Mr. Saeb Muhammad Jafri (Ext: 202) or the undersigned (Ext: 207) at 021-35311861-64 or email at info@vis.com.pk.

Sara Ahmed

Director

Applicable rating criterion: Non-Bank Financial Companies (March 2020)

<https://docs.vis.com.pk/docs/NBFCs202003.pdf>

VIS Issue/Issuer Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>