

First Paramount Modaraba

Chairman: Mian Tanveer Ahmed Magoon; Chief Executive: Mr. Abdul Ghaffar Umer

January 29, 2013

Analysts: Zia M Usmani
Maria Wasti

Rating Rationale

Category	Latest	Previous
Entity	BBB/A-3 Dec 31, '12	BBB/A-3 Aug 8, '11
Outlook	Stable Dec 31, '12	Stable Aug 8, '11

First Paramount Modaraba (FPM), managed by Paramount Investments Limited (PIL), is in operations since 1995. Amidst a challenging business environment, FPM has reduced reliance on bank borrowings, by establishing access to retail Certificates of Musharikhah (CoMs). As a result, cost of funding reduced significantly; some of the decline in cost of funding is also attributable to decline in market benchmark rates. CoMs may also be a relatively stable source of funding and deepening access in retail market may enhance the modaraba's liquidity profile.

Asset base (net of deferred income) stood relatively higher at Rs. 233m (FY11: Rs. 205m) on account of increase in financing portfolio during FY12. Apart from financing under murabaha arrangement, diminishing musharaka was also introduced, representing almost 11% of the net financing portfolio. Assets held under generator rental project stood higher at Rs. 27.7m (FY11: Rs. 26.7m) and the same are expected to increase further by end FY13, with plans to expand operations in Lahore, to take advantage of the increased demand for generators on account of power crisis in the region.

Around 64% (FY11: 70%) of the assets were funded through FPM's equity as at end 1Q'13. Net equity increased to Rs. 147.1m (FY11: Rs. 144m) as of September 30, 2012. Board approved 30% rights issue in September 2012, which will increase the overall equity by Rs. 17.6m. Leverage is expected to remain below 1x in FY13 and may increase above this level thereafter. FPM has maintained a conservative profile over the years; the modaraba's ability to sustain its performance at higher levels of operations is currently untested.

Liquid assets increased to Rs. 21m (FY11: Rs. 3.6m), comprising cash in bank and investment in Islamic money market fund of Rs. 2m at end FY12 and comprised 33% of borrowings & CoMs while current ratio was 3.9x. The COM portfolio amounted to Rs. 63.5m (FY11: Rs. 45.1m) with top ten COM holders contributing 58% of total COMs; concentration in COM holding is on the higher side. Unutilized credit line of Rs. 50m may mitigate liquidity risk on account of unexpected withdrawals by COM holders to some extent. With majority of COM deposits having maturity of more than one year, maturity profile of assets and liabilities is matched.

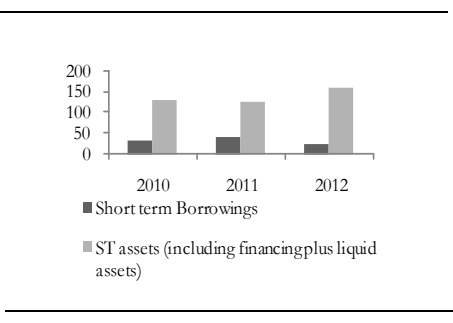
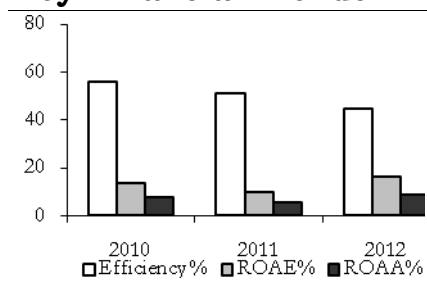
Revenues increased to Rs. 52.6m (FY11: Rs. 40.5m), with 70% income generated from the financing portfolio. Overall spreads increased to 7.7% (FY11: 2.7%) in FY12 on the back of lower cost of CoMs and FPM's ability to maintain yield on financing at 22% (FY11: 20%) despite fall in discount rate. Contribution of generator operations to revenues was 27%. While management expenses were maintained at prior year's level, efficiency improved to 45% (FY11: 51%) during FY12. In 1Q'13, efficiency weakened to 47%, on the back of slightly higher expenses and fall in financing portfolio. ROAA and ROAE improved to 9% (FY11: 5.5%) and 16% (FY11: 9.8%) respectively, during FY12; this excludes profit on sale of discontinued operations of Rs. 14.8m in FY11.

Mufti Muhammad Najeeb Khan has been appointed as the Shariah Advisor while the company's internal auditors M/s Hafizullah and Co. Chartered Accountants are also overseeing Internal Shariah Audit.

Overview of the Institution

First Paramount Modaraba (FPM) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed there under and is managed by Paramount Investments Limited (PIL). The management company is incorporated in Pakistan under the Companies Ordinance, 1984 and registered with the Registrar of Modaraba Companies and Modarabas. FPM is listed on the Karachi and Islamabad stock exchanges. External auditors of FPM are M/s KPMG Taseer Hadi & Company JCR-VIS

Key Financial Trends



(Rs. million)	2010	2011	2012
Asset base	230.4	204.7	232.8
Borrowings	36.5	45.1	63.5
Equity	126.8	144.0	153.8
Revenue	29.6	40.5	52.6
Net Profit*	16.7	28.0	23.6
Long Term Debt	-	0.9	37.6
Debt Leverage(x)	0.8	0.4	0.5
ROAE(%)	13.9%	9.8%	16.3%
ROAA(%)	7.9%	5.5%	9.0%

*excluding discontinued operations