

RATING REPORT

First Paramount Modaraba

REPORT DATE:

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RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Long-term	Long-term
Entity	BBB	BBB
Rating Date	Dec 31, '15	Dec 26, '14
Rating Outlook	Positive	Positive

COMPANY INFORMATION

Incorporated in 1993	External Auditors: M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants
Public Listed Company	Chairman: Mr. Tanveer Ahmed Magoon
Key Certificate holders (with stake 5% or more):	Chief Executive Officer: Mr. Syed Wajih Hassan
Paramount Investments Limited – 14.6%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Non-Bank Financial Companies <http://jcrvis.com.pk/Images/NBFC.pdf>

JCR-VIS Entity Rating Criteria: Modaraba Rating Scale <http://www.jcrvis.com.pk/images/JCR-Mod.pdf>

First Paramount Modaraba (FPM)

OVERVIEW OF THE INSTITUTION

First Paramount Modaraba (FPM) was established under the modaraba companies and modaraba (Floatation and Control) ordinance, 1980. FPM is a multipurpose, perpetual and multidimensional Modaraba managed by Paramount Investments Limited.

RATING RATIONALE

Established in 1995, First Paramount Modaraba (FPM) is managed by Paramount Investments Limited (PIL) holding almost 15% of certificates in the company. Ratings reflect the financial risk profile of the modaraba, which has experienced some weakening in the ongoing year. Given sizeable increase in Certificates of Musharaka (CoMs), leverage indicators were reported above 1(x) while liquidity position further weakened.

Funding mix comprises entirely of CoMs. Given relatively lower rates vis-à-vis secondary market borrowings, management's focus primarily remained on mobilizing short-term CoMs during FY15. Cost of outstanding CoMs varies from 8.75% to 10.75% depending on the tenor of the instrument. At end-1Q16, CoMs increased to Rs. 199.3m with top 10 constituting 25% of total portfolio.

Financing portfolio has grown on a timeline basis largely on account of higher Murabaha financing, during the period ending June 30, 2015. Total financing portfolio increased to Rs. 322.8m (FY15: Rs. 297.2m; FY14: Rs. 206.9m) by end-1Q16. Concentration in the Murabaha portfolio is on the higher side with top 10 clients representing 45% of the total Murabaha portfolio, exposing FPM to asset quality pressures in case of impairments. Going forward, exposure to Murabaha financing is projected to dominate the financing mix with Musharaka projects representing around one-fifth of the overall financing portfolio.

Accounting for statutory reserves and unappropriated profit, net equity amounted to Rs. 206.4m (FY14: Rs. 179.5m), at end-June 2015. Equity level was reported lower at Rs. 200.0m on account of dividend paid, at end-1Q16. Going forward, equity levels have been projected to increase on account of internal capital generation and issuance of right shares. Equity is expected to reach Rs. 400m by end-FY18.

While revenues of the company posted a modest growth during FY15, profitability witnessed a decline due to increase in finance cost and mismatch in revenue inflows vis-à-vis investment in Musharaka projects. Accounting for provisions and other income, FPM posted profit after tax of Rs. 10.2m (FY14: Rs. 12.4m) in FY15 and Rs. 3.2m during 1Q16. Though the Modaraba has been consistently posting positive bottom line over the years, sustainability and growth in earnings are now largely dependent on the quality of the financing portfolio which increased considerably in the most recent period.

First Paramount Modaraba (FPM)
Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	Jun 30, 2015	Jun 30, 2014	Jun 30, 2013
Total Financing	326.6	206.9	170.3
Total Assets	439.9	326.4	266.9
Borrowings*	175.4	93.9	46.0
COMs	175.4	93.9	46.0
Net Worth	206.4	179.5	175.7
<u>INCOME STATEMENT</u>			
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2013
Operating Income	80.1	55.2	42.0
Net (Provisioning) / Reversal	0.26	0.29	(0.75)
Operating Expenses	57.8	35.6	23.8
Profit (Loss) Before Tax	10.2	12.4	16.4
Profit (Loss) After Tax	10.2	12.4	16.4
<u>RATIO ANALYSIS</u>			
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2013
Gross Infection (%)	1.3	6.7	1.8
Provisioning Coverage (%)	1.0	1.4	1.8
Net Infection (%)	0.4	5.6	0.2
ROAA (%)	2.7	7.3	10.4
ROAE (%)	5.3	4.3	6.3
Debt Leverage (x)	1.0	0.7	0.4
Current Ratio (x)	3.5	3.7	6.5

** including COMs*

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES						Appendix III
Name of Rated Entity	First Paramount Modaraba					
Sector	Modaraba					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	12/31/2015	BBB	A-3	Positive	Reaffirmed	
	12/26/2014	BBB	A-3	Positive	Maintained	
	1/28/2013	BBB	A-3	Stable	Reaffirmed	
8/8/2011	BBB	A-3	Stable	Upgrade		
Instrument Structure	N/A					
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.					
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