RATING REPORT

First Paramount Modaraba

REPORT DATE:
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RATING DETAILS

	Latest Rating	**Previous Rating**
Rating Category	**Long-term**	**Long-term**
Entity	BBB	BBB
Rating Date	*Dec 30, '16*	*Dec 29, '15*
Rating Outlook	Stable	Positive

COMPANY INFORMATION

Incorporated in 1993	**External Auditors:** Deloitte Yousuf Adil, Chartered Accountants
Public Listed Company	**Chairman:** Mr. Tanveer Ahmed Magoon
Key Certificate holders (with stake 5% or more):	**Chief Executive Officer:** Mr. Wajih Hassan
General Public (Local) – 72.2%	
Associated Companies – 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. The primary activities of modaraba include murabaha and musharaka financing and deployment of funds in in-house ventures. Majority shareholding of the company is vested with general public.

Financing Portfolio: Financing portfolio (net of deferred income) of FPM amounted to Rs. 267.8m (FY16: Rs. 261.5m; FY15: Rs. 271.9m) at end-Q1'17. Murabaha remains the flagship financing product extended by the modaraba, as it represented almost three fourths of the total financing portfolio at end-Q1'17. Concentration in the murabaha portfolio is on the higher side with top 10 clients representing 63.9% (FY15: 45.0%) of the total portfolio at end-FY16; hence asset quality may witness pressure in case of impairments. Quality of the financing portfolio must be maintained in order to ensure sustainability and growth in earnings. Going forward, portfolio mix is expected to remain the same.

Profitability: Profitability of the company increased on the back of growth observed in the top-line outweighing growth witnessed in the operating expenses. Improved performance can be primarily attributed to murabaha portfolio and in-house projects of the company (FPM solutions and FPM Petro Services). Moreover, discontinuation of loss making weaving business also aided in improving in net profit of the modaraba. Going forward, management is projecting sizeable increase in income from its in-house ventures.

Funding: Operations of the company are financed by a mixture of equity and deposits acquired in the form of certificates of musharaka (COMs). At end-Q1'17, COMs raised by the company amounted to Rs. 215.7m (FY16: Rs. 227.7m; FY15: 175.4m). Certificates of Musharakah (CoMs) remain the primary source of funding for the company; however, given the restrictions imposed by the regulator on raising additional COMs, the company may have to seek alternate sources of funding in order to achieve targeted growth in portfolio. Leverage indicators continue to remain within manageable levels; although the same have depicted growth on a timeline basis.

Capitalization: Ratings incorporate conservative risk profile of the Modaraba with gradual improvement in equity levels over the years as a result of internal profit generation and issuances of right shares. Accounting for statutory reserves and unappropriated profit, net equity amounted to Rs. 209.9m (FY15: Rs. 206.4m), at end-June 2016. Equity level was reported lower at Rs. 202.8m on account of dividend paid, at end-1Q17. Going forward, equity levels have been projected to increase on account of internal capital generation and issuance of right shares.

Internal Controls: In view of the observations highlighted by the regulator during its inspection process, further improvements in the internal control environment of the company are required.

First Paramount Modaraba (FPM) Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**Jun 30, 2016**	**Jun 30, 2015**	**Jun 30, 2014**
Total Financing*	261.5	272.0	206.9
Total Assets	504.5	439.9	326.4
COMs	227.7	175.4	93.9
Net Worth	209.9	206.4	179.5
INCOME STATEMENT	**Jun 30, 2016**	**Jun 30, 2015**	**Jun 30, 2014**
Operating Income	134.5	72.5	55.2
Net (Provisioning) / Reversal	0.47	(0.26)	(0.29)
Operating Expenses	115.1	50.8	35.6
Profit (Loss) Before Tax from continuing operations	13.9	10.2	12.4
Profit (Loss) After Tax from continuing operations	13.9	10.2	12.4
Loss from discontinued operations	(0.87)	(0.66)	-
Profit after tax	13.0	10.2	12.4
RATIO ANALYSIS	**Jun 30, 2016**	**Jun 30, 2015**	**Jun 30, 2014**
Gross Infection (%)	1.3	1.4	6.7
Provisioning Coverage (%)	0.8	0.8	1.4
Net Infection (%)	0.3	0.4	5.6
ROAA (%)	2.8	2.7	7.3
ROAE (%)	6.3	5.3	4.3
Debt Leverage (x)	1.1	0.8	0.7
Current Ratio (x)	4.2	3.2	3.7

**Net of deferred income*

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

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.

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 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.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	First Paramount Modaraba
Sector	Modaraba
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below
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.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12/30/2016	BBB	A-3	Stable	Maintained
12/29/2015	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