RATING REPORT

First Paramount Modaraba

REPORT DATE:
December 31, 2018

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	**Previous Rating**
Rating Category	**Entity**	**Entity**
Entity	BBB/A-3	BBB/A-3
Rating Date	*Dec 27, '18*	*Dec 29, '17*
Rating Outlook	Stable	Stable

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 represents 49% (FY17: 50%) of total assets and includes various in-house ventures under Musharakah financing arrangements while their performance is highlighted below:

- **Generator Project Musharaka Finance:** The generator project includes trading of generators and supply of generators on rent. This project is in partnership with "Al-Burq Associates".
- **FMP Solutions:** Under this project, the company provides power solutions to the service and manufacturing sectors. The main activity under this project includes provision of back-support to consumers through UPS batteries.
- **FPM Petro Services:** FPM petro services is engaged in provision of various chemical components to different sectors locally and internationally.

Going forward, FPM has two new businesses in the pipeline; Geo Dynamics International (to tap opportunities in upstream segment of petroleum industry) and FPM Technological Services (Integrated Building Management Systems).

Financing portfolio (net of deferred income) of FMP declined by 7% to Rs. 217.9m (FY17: Rs. 233.3m) at end-FY18. Murabaha financing continues to represent the largest chunk of the portfolio; murabaha contributes more than two-thirds of total financings. Although top ten clients represent 52% of the murabaha portfolio, a single exposure does not exceed more than 10% of its equity base. Nonetheless, quality of the financing portfolio must be maintained in order to ensure sustainability and growth in earnings. Management anticipates growth in the financing portfolio once equity injection is completed. During 2018, infection levels of the company were reported at 1.4% (FY17: 1.4%) on a gross basis.

Profitability: Despite a lower financing base, revenue base of the company increased on the back of proceeds from its in-house petrochemicals venture. FPM's sold its loss-making weaving unit during FY17 which impacted preceding fiscal year's profit after tax by Rs. 2.1m. Growth in operating expenses has outpaced increase in operating revenue, translating into higher efficiency ratio (1QFY19: 94%; FY18: 91%; FY17: 88%). In FY18, growth in revenue, reduction in finance cost contributed to increase in bottom line to Rs. 10.9m (FY17: Rs. 7.2m). Going forward, management projects its in-house ventures to continue supporting its profitability levels.

Funding: FPM only mobilizes funds through Certificate of Musharaka (CoMs), cost of which compares favorably to secondary market borrowings. Cost on CoMs varies from 6% to 8% depending on the tenor of the instrument. Quantum of COMs has decreased on a timeline basis to Rs. 168m (FY17: 186m) at end-FY18; the company plans to increase COMs to ~Rs. 200-250m albeit at a gradual pace of about Rs. 20-25m per month. Top 10 CoM holders represent a significant proportion of total funds raised through CoMs at end-FY18.

Capitalization: Net equity stood at Rs. 203.5m (FY18: Rs. 213.1m; FY17: Rs. 212.6m) at end-September 2018. With lower equity, debt leverage has remained above 1(x) as at end-FY18 at 1.1x (FY17: 1.2x). In order to enhance its capitalization strength, FPM plans raise equity of Rs. 70m, half of the paid up capital, through issuance of right shares by end-March 2019; developments in this regard are yet to materialize. This funding will be deployed towards growth in its financing portfolio. The modaraba's ability to maintain portfolio quality indicators and improve profitability while maintaining leverage within prudent limits will continue to be monitored by JCR-VIS.

First Paramount Modaraba (FPM) — Appendix I

FINANCIAL SUMMARY		*(amounts in PKR millions)*
BALANCE SHEET	**Jun 30, 2018**	**Jun 30, 2017**
Total Financing*	217.9	233.3
Total Assets	444.2	465.9
Certificates of Musharakah (inc. current portion)	168	186
Net Worth	213.1	212.6
INCOME STATEMENT	**Jun 30, 2018**	**Jun 30, 2017**
Operating Income	257.1	202.2
Net (Provisioning) / Reversal	(1.3)	(2.7)
Operating Expenses	233.1	178.1
Profit (Loss) Before Tax from continuing operations	11.1	7.2
Profit (Loss) After Tax from continuing operations	10.9	7.2
Loss from discontinued operations	-	-
Profit after tax	10.9	7.2
RATIO ANALYSIS	**Jun 30, 2018**	**Jun 30, 2017**
Gross Infection (%)**	1.4	1.4
ROAA (%)	2.4	1.5
ROAE (%)	5.1	3.4
Gearing (x)	0.8	0.9
Debt Leverage (x)	1.1	1.2
Current Ratio (x)	3.1	5.2

**Net of deferred income*

** principal overdue for more than 1 year is classified*

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 table 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				
12/27/2018	BBB	A-3	Stable	Reaffirmed
12/29/2017	BBB	A-3	Stable	Reaffirmed
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