RATING REPORT

First Paramount Modaraba

REPORT DATE:
December 30, 2020

RATING ANALYSTS:
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RATING DETAILS		
	Latest Rating	**Latest Rating**
Rating Category	**Entity**	**Entity**
Entity	BBB/A-3	BBB/A-3
Rating Date	*Dec 30, '20*	*Dec 27, '19*
Rating Outlook	Stable	Stable

COMPANY INFORMATION	
Incorporated in 1993	**External Auditors:** Riaz Ahmed & Co. 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)
VIS Entity Rating Criteria: Non-Bank Financial Companies(March 2020) **http://www.vis.com.pk/kc-meth.aspx**

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

The ratings assigned to First Paramount Modaraba (FPM) take into account its conservative business risk profile with primary focus on asset quality indicators, restricted lending to maintain a clean book and expected revenue diversification with the launch of online screening facility providing a cover against anti-money laundering/ combating of financing of terrorism (AML/CFT) risks. However, the impact of COVID-19 on the economy would make operating dynamics of the modarabas challenging going forward. Regulatory relief measure granted by SECP to allow for delay of principal payment for one year to clients is expected to postpone the impact of potential prevailing infection cases on asset quality indicators.

Leverage indicators continue to remain within manageable levels. Majority shareholding of the company is vested with general public. The concentration in the Certificate of Musharaka portfolio is notable, however, the modaraba has adequate liquidity and access to credit lines to fulfill any unexpected withdrawal requests. The ratings reflect weakening in operational and financial profile of the company including continuous attrition in financing portfolio and it's earning potential post COVID-19. The profitability metrics exhibited slight deterioration owing to curtailed business operations and high finance cost; however, efficiency ratio has remained at manageable levels for the company over the years. The ratings will remain sensitive to sustainable growth in topline along with maintenance of asset quality and leverage indicators at current levels.

Conservative financing strategy adopted by the management amid COVID-19 pandemic to avoid higher infection ratios: Given the ongoing pandemic scenario, FPM limited its scope of lending and financing activities post Mar'20 to focus primarily on the portfolio quality. As per the management, portfolio health remained foremost priority in the current economic dynamics not being conducive to lending, therefore financing portfolio (net of deferred income) witnessed a decline to Rs. 201.5m (end-DY20: Rs. 220.4m;FY19: Rs. 250.5m) by end-1QFY21. Financing portfolio represented 45% (FY20: 49%; FY19: 54%) of total assets at end-1QFY21 and includes various in-house ventures under Musharaka financing arrangements discussed below:

- **Generator Project Musharaka Finance:** The generator project includes supply of generators on rent. This project is in partnership with "Al-Burq Associates" with FPM's share of 52.1%. The project has now been discontinued.
- **FPM Consulting:** FPM Consulting is a group of experienced consulting firms and consultants who are providing consultancy services (including information technology) all over Pakistan in various areas. However, during the last two years, no lending was made under this business segment to restrict operational losses owing to unfavorable economic situation. The project never took off so it is most likely to be discontinued going forward on account of nominal opportunities available.
- **FPM 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. The performance of the segment exhibited improvement with enhanced topline of Rs. 11.5m (FY19: Rs. 8.1m) resulting in profit of Rs. 2.1m vis-à-vis Rs. 0.8m in preceding year.

- **FPM Petro Services:** FPM Petro Services is engaged in provision of various chemical components to different sectors locally and internationally. Customer base comprises four companies i.e. Baker Hughes, Halliburton, Schlumberger and Scomi. The revenues of petro services declined to Rs. 141.6m (FY19: Rs. 172.5m) owing to slashed oil prices globally leading to reduced oil exploration work and chemicals requirement in Pakistan. However, the segment has bright future prospects and is expected to revert back once the uncertainty concerning COVID-19 subsides.
- **FPM Geo Dynamics International:** Engineering products and solutions to upstream service companies. The project is on a standstill with no revenue booked during the outgoing year.

As per the management, lending has picked pace after June'20; however, the same is expected to be reverted back to normal by the start of the next calendar year. The recovery still remains contingent upon roll out of vaccine in the country. The management expects to close FY21 with a total financing book of around Rs. 230.m. Nevertheless, even post COVID-19, the management envisages a cautious growth strategy in the financing portfolio. In terms of sector allocation, the Musharakah financing remained predominated by lending to books printing and food product sectors; meanwhile the exposure to fabric and garments sector was largely rationalized owing to no lucrative client being available. FPM has a client specific lending strategy rather than having sector specific threshold limitations.

Given FPM aims at maintaining a clean rather than a large portfolio, nonperforming loans on the books of the company remain minimal. The non-performing advances were recorded at Rs. 2.6m (FY20: Rs. 2.6; FY19: Rs. 2.3m) at end-1QFY21. With decline in the portfolio, the gross infection was reported slightly higher at 1.3% (FY20: 1.2%; FY19: 0.9%) at end-1QFY21. However, in line with conservative risk appetite of FPM, all NPLs have been provided for; the management also plans on providing for NPLs immediately without realizing the cushion of collateralized assets going forward. At present, FPM even has a sizable cushion available on financing extended compared to collateral security held. The regulatory relief cover extended by SECP to allow for delay of principal payments for one year to clients is expected to delay the impact of non-payment on portfolio asset quality indicators. Owing to weak macroeconomic indicators hampering client repayment capacity; VIS will monitor infection ratios on an ongoing basis; the same remain crucial to current ratings.

Profitability: The revenue generation of the company declined on account of lower revenue from FPM Petro business as some of the clients delayed renewal the contract owing to slump in the oil exploration business in line with onslaught of ongoing pandemic. However, similar decrease in variable expenses led to lower operating expense. Therefore, efficiency ratio remained at prior year's level at 88% (FY19: 88%). The finance cost was recorded higher at Rs. 15.6m (FY19: Rs. 12.9m) on account of higher average benchmark rates during the concerned period. Subsequently, with decline in scale of operations coupled with increased financial expense the profitability indicators took a dip during FY20. Going forward, it is expected that the impact of curtailment of economic activity for a certain period of time and lower lending rate scenario may result in ease on profitability profile of the company in the medium to long term rating horizon. Further, FPM is exercising caution in extending financing to customers as general slowdown has turned quite a few businesses unviable. Conservative lending strategy to maintain asset quality and cost efficiencies would be important rating drivers going forward.

On the other hand, in these uncertain times FPM has successfully launched online screening facility as a tool to combat against AML/CFT related threats. The service is introduced in collaboration of FINSCAN, a globally recognized solutions provider for AML/CFT risks. A number of large-scale enterprises in Pakistan are expected to make use of the service; the same is likely to contribute Rs. 6- 7m to the revenue annually.

Funding and Capitalization: FPM only mobilizes funds through Certificate of Musharaka (CoMs). Cost on CoMs varies from 6% to 7.5% depending on the tenor of the instrument. Quantum of CoMs has largely remained stagnant at Rs. 174.7m (FY20: 175.7m; FY19: Rs. 172m) at end-1QFY21. Net equity slightly declined to Rs. 203.6m (FY20: Rs. 208.3m; FY19: Rs. 215.6m) by end-1QFY21. With decline in equity base, debt leverage was recorded higher at 1.21x (FY20: 1.15x; FY19: 1.2x) at end-1QFY21. Liquidity profile of the company is manageable given the sizeable proportion of liquid assets in relation to total liabilities. The modaraba's ability to maintain portfolio quality indicators and improve profitability while maintaining leverage within prudent limits will continue to be monitored by VIS.

First Paramount Modaraba (FPM) Appendix I

FINANCIAL SUMMARY			(Rs. in millions)	
BALANCE SHEET	**30-Jun-18**	**30-Jun-19**	**30-Jun-20**	**30-Sep-20**
Total Financing*	232.0	250.5	220.4	201.5
Total Assets	444.2	466.9	447.3	450.1
COMs	169	172	175.7	174.7
Cash & Bank Balances	25.6	20.0	75.9	86.5
Paid up Capital	137.9	137.9	137.9	137.9
Net Worth	213.1	215.6	208.3	203.6
INCOME STATEMENT	**30-Jun-18**	**30-Jun-19**	**30-Jun-20**	**30-Sep-20**
Operating Income	257.1	219.2	185.7	12.2
Net (Provisioning) / Reversal	(1.3)	0.7	0.3	0.0
Operating Expenses	233.1	192.2	163.2	9.5
Profit (Loss) Before Tax from continuing operations	11.1	12.1	6.5	0.1
Profit (Loss) After Tax from continuing operations	10.9	12.1	6.5	0.1
Loss from discontinued operations	-	-	-	-
Profit after tax	10.9	12.1	6.5	0.1
RATIO ANALYSIS	**30-Jun-18**	**30-Jun-19**	**30-Jun-20**	**30-Sep-20**
Infection (%)	1.3	0.9	1.2	1.3
ROAA (%)	2.4	2.7	1.4	0.1
ROAE (%)	5.1	5.6	3.1	0.3
Debt Leverage (x)	1.1	1.2	1.15	1.21
Current Ratio (x)	3.1	2.8	3.24	3.04

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12/30/2020	BBB	A-3	Stable	Reaffirmed
12/27/2019	BBB	A-3	Stable	Reaffirmed
12/28/2018	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

Instrument Structure	N/A
Statement by the Rating Team	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	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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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Ammad Jamal	CFO	21-Dec-2020
Syed Wajih Hassan	CEO	21-Dec-2020