RATING REPORT

First Paramount Modaraba

REPORT DATE:
December 31, 2021

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 31, '21*	*Dec 30, '20*
Rating Outlook	Rating Watch-Developing	Stable

COMPANY INFORMATION	
Incorporated in 1994	**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 in 1994 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

Corporate Profile: Incorporated in 1994 and managed by Paramount Investments Limited, First Paramount Modarba (FPM) principally deploys funds through murabaha, modaraba, and musharaka arrangements along with operating multiple in-house ventures including chemical business, consultancy, supply of engineering products and solutions to upstream service companies, and electrical maintenance and troubleshooting services under the names of "FPM Petro Services", "FPM Consulting", "FPM Geo Dynamics International", and "FPM Solutions" respectively. FPM continues to have a client specific lending strategy as opposed to sector specific threshold limitations. The company has also launched an online screening facility which provides a cover against Anti-Money Laundering (AML) and Combating the Financing of Terrorism Compliance (CFT) risks in collaboration with a globally recognized institution namely FINSCAN. Registered office is situated in P.E.C.H.S., Karachi, and the company also has a branch office in Islamabad. The modarba is listed on the Pakistan Stock Exchange (PSX).

Revenue Breakup	FY20	FY21	Q1'FY22
Murabaha financing	11.60%	20.09%	4.24%
Diminishing Musharaka Financing	2.68%	5.53%	0.37%
Musharaka Financing	3.26%	1.93%	0.35%
FPM Solution	6.20%	10.05%	0.92%
FPM Petro Services	76.26%	62.40%	94.12%
Total	100.00%	100.00%	100.00%

Rating Drivers

Directives stipulated in "The Modarba Regulation 2021" pose challenges for the industry

The regulator, Securities and Exchange Commission of Pakistan (SECP), has issued "The Modarba Regulations 2021" in March 2021 whereby criteria for deposit taking Modarba companies has been revised. Some of the critical ones include the following:

- Minimum equity of Rs. 500m
- Capital Adequacy Ratio (CAR) to be maintained at minimum 8% for the first two years of operations and 10% thereafter
- Minimum long term entity ratings should be is minimum of A-

As per regulations, the regulator has extended a period of one year to allow deposit taking modarbas to comply with the aforementioned conditions. FPM duly complies with the CAR ratio requirement with sizeable cushion, while remains short of capital and credit rating requirements. The company has requested for further extension to comply with the requirements, and have consequently submitted a yearly plan extending to five years to SECP with the help of Non-Banking Financial Institution (NBFI) Association. Total equity of the company currently stands at Rs. 211.16 (FY20: Rs. 208.28) at end-FY21, and plans to inject minimum Rs. 50m each year for the next five years to reach the required equity level. Progress made by FPM in this regard will be closely monitored by VIS, and will remain crucial for ratings.

Low business risk on account of conservative lending appetite with primary focus on asset quality indicators

Ratings encapsulates conservative lending of the company for maintenance of clean financing book whereby total financing has decreased to Rs. 209.57m (FY20: 220.43m) in FY21, primarily driven by decline in murabaha financing. However, lending has picked pace post FY21 whereby total financing at end-Q1'FY22 stood at Rs. 191.60m on account of uptick in murabaha and musharaka financing. Financing portfolio constituted 46% (FY20: 49%) of the total assets in FY21, whereby major contributors continued to remain the same in the outgoing year with murabaha and musharaka contributing 70% (FY20: 62%) and 20% (FY20: 18%) towards total financing portfolio. Financing portfolio remained concentrated in the food; paper and board; and steel, engineering and automobile industry in FY21. Going forward, FPM projects further growth in financing portfolio with new contracts with existing and indirect clients in the pipeline. However, focus remains on a cautious growth strategy with per party limits comfortably below regulatory ceilings in line with conservative risk appetite.

Non-performing loans continued to remain minimal in FY21 which stood at Rs. 2.6m (FY20: Rs. 2.6m). Consequently, gross infection continued to remain low at 1.2% (FY20: 1.2%) during the outgoing year. Non-performing loans in Q1'FY22 were reported at Rs. 2.6m resulting in gross infection ratio of 1.3%. Provisioning of all non-performing loans have been made in accordance with the company's policies to maintain high asset quality. Maintenance of asset quality remains important for ratings.

Positive momentum in profitability expected going forward

Total operating income declined to Rs. 108.4m (FY20: Rs. 185.7m) in FY21 driven by 52% reduction in income from FPM Petro Services on account of seasonal fluctuations and deterioration in oil exploration business amid COVID-19. However, income from the same has picked substantial pace which stood at Rs. 120.6m in Q1'FY22 resulting in total operating income of Rs. 128.1m. Furthermore, income from online screening facility of AML/CFT risks will be reflected in FY22 which will further boost overall topline. The company has several clients in the pipeline for the new division including Central Directorate of National Savings, Sadapay, and several insurance companies. Consequently, topline is expected to witness considerable growth in FY22.

Operating expenses witnessed 44% decline in FY21 in line with dip in operating income, majorly on the back of reduction in direct expenses attributed to FPM Petro Services. Consequently, efficiency ratio remained at similar levels at 85% (FY20: 88%) in FY21. During Q1'FY21, efficiency ratio increased to 91%. Other income increased to Rs. 4.26m (FY20: Rs. 0.94m) in FY21 owing to surge in income from both financial and non-financial assets, while finance costs witnessed 23% decline in FY21 on account of lower interest rates. Consequently, net income of the modarba increased by 19% to Rs. 7.70m (FY20: 6.50m) in FY21 despite decline in topline. Nonetheless, profitability profile during Q1'FY22 depicts substantial uptick in profit before tax which stood at Rs. 8.44m. However, profit after tax was recorded at Rs. 5.99m in the outgoing quarter with imposition of corporate taxation on modarbas post FY21.

Capitalization indicators are expected to depict improvement going forward

Funds of FPM are mobilized only through issuance of Certificate of Musharaka (COMs) which stood at Rs. 179.22m (Q1'FY22: Rs. 184.08m; FY20: 178.35m) in FY21. COMs have various denominations and are repayable between three months to five years, while expected profit rates on the certificates ranges from 6.25% to 7.50% per annum. Liquidity profile continued to remain within manageable levels with current ratio standing at 2.9x (Q1'FY21: 2.4x; FY20: 3.2x).

Equity base of the company remained at similar levels in FY21 amounting to Rs. 211.16 (FY20: Rs. 208.28) on account of limited profitability. Equity base at end-Q1'FY22 stood at Rs. 210.95m. Consequently, leverage was recorded at 1.2x (Q1'FY21: 1.3x; FY20: 1.1x) in FY21. Capitalization is expected to depict improvement over the rating horizon with subsequent equity injection in accordance with directives of The Modarba Regulations 2021. Management plans to inject Rs 50m each year for the next 3-5 years to meet the revised minimum capital requirements for Modarba companies. Going forward, improvement in leverage levels with expected equity injection as well as projected profitability, coupled with maintenance of portfolio quality indicators will remain important for assigned ratings.

First Paramount Modaraba (FPM) Appendix I

FINANCIAL SUMMARY	FY19	FY20	FY21	Q1'FY22
BALANCE SHEET				
Total Financing	250.48	220.43	209.57	191.60
Murabaha financing	*168.10*	*135.95*	*145.62*	*136.19*
Diminishing musharaka financing	*20.41*	*33.88*	*15.05*	*9.71*
Musharaka financing	*50.96*	*40.01*	*40.00*	*42.59*
Modaraba financing	*10.99*	*10.59*	*8.90*	*3.10*
Cash and Cash Balances	20.00	75.85	95.13	31.94
Total Assets	463.52	447.27	458.28	491.19
COMs	172.26	178.35	179.22	184.08
Total Liabilities	247.95	238.99	247.11	280.24
Paid up capital	137.88	137.88	137.88	137.88
Net Worth	215.57	208.28	211.16	210.95
INCOME STATEMENT				
Operating Revenue	219.16	185.69	108.35	128.10
Net (Provisioning) / Reversal	0.73	(0.34)	0.06	
Operating Expenses	192.21	163.17	91.92	115.94
Profit (Loss) Before Tax	12.09	6.50	7.70	8.44
Profit (Loss) After Tax	12.09	6.50	7.70	5.99
RATIO ANALYSIS				
Gross Infection (%)	0.9%	1.2%	1.2%	1.3%
Efficiency (%)	87.7%	87.9%	84.8%	90.5%
ROAA (%)	2.7%	1.4%	1.7%	1.3%
ROAE (%)	5.6%	3.1%	3.7%	2.8%
Debt Leverage (x)	1.2	1.1	1.2	1.3
Current Ratio (x)	3.0	3.2	2.9	2.4

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		
12/31/2021	BBB	A-3	Rating Watch-Developing	Maintained
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	20-Dec-2021
Syed Wajih Hassan	CEO	20-Dec-2021