RATING REPORT

First Paramount Modaraba

REPORT DATE:
December 21, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating Entity	Previous Rating Entity
Entity	BBB/A-3	BBB/A-3
Rating Date	*Dec 21, 2022*	*Dec 31, '21*
Rating Outlook	Stable	Rating Watch -Developing

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

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 Modaraba (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 has a branch office in Islamabad. The Modaraba is listed on the Pakistan Stock Exchange (PSX).

Rating Drivers

Deferment of 3 years for compliance with new Modaraba Regulations stipulated in "The Modaraba Regulation 2021" last year

Securities and Exchange Commission of Pakistan (SECP), had issued "The Modaraba Regulations 2021" in March 2021 whereby criteria for deposit taking Modaraba companies had been revised including:

- 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- '

In August 2022, the regulator has extended a period of three years to allow deposit taking Modaraba's 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. Total equity of the Company currently stands at Rs. 216m at the end of Q1'23 (FY22: Rs214.9m) at end-FY22. Company plans to inject Rs. 200m over the next three years with Rs. 100m targeted for FY2023. We expect that in current capital market conditions, this may be challenging. Progress made by FPM in this regard will be closely monitored by VIS, and will remain crucial for ratings.

Financing portfolio is reflective of conservative lending strategy

Ratings encapsulates conservative lending strategy of the Company for maintenance of clean financing book whereby total financing has decreased to Rs. 172m (FY21: Rs. 209.57m) at end Q1'23, primarily driven by decline in murabaha financing. Financing portfolio constituted about 36% (FY21: 46%) of the total assets at end Q1'23, whereby major contributors continued to be murhaba financing, accounting for 66% of financing portfolio. Musharika financing is mostly invested in the printing industry which have mostly matured. Realization of profit proceeds will be important for ratings.

Non-performing loans continued to remain minimal in FY22 which stood at Rs. 2.6m. Consequently, gross infection continued to remain low at 1.3%.

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. Maintenance of asset quality remains important for ratings.

In-house ventures contributed towards revenue improvement.

Segment Revenue Break-up	FY21	% of Total	FY22	% of Total
Financing	30	28%	25	8%
FPM Petro	68	62%	274	89%
FPM Solutions	11	10%	8	3%
Total	**108**	**100%**	**307**	**100%**

In-house ventures under Musharaka financing arrangements contributed towards sizeable uptick in revenues in FY22. The main contributing business units included:

- FPM Solutions: It is an IT Company providing IT solutions to the industry. Clients include Meezan Bank Limited and Faysal Bank Limited.
- FPM Petro Services: FPM Petro Services is engaged in provision of various 'Drilling Chemicals' in bulk quantities, including, Barite, Caustic Soda, Calcium Carbonate, Calcium Chloride, Lime, Sodium chloride, Kwik Seal, Mica and many other industrial and raw materials.

The revenues of petro services had been impacted due to COVID-19 led slowdown when oil exploration work had reduced and requirements declined. However, in FY22, drilling activity recouped together with an increase in international commodity prices, leading to strong revenue growth in the business unit. However, operating expenses also increased in line with the raw material costs attributable to FPM Petro Services. Consequently, operating margins declined. While bottom line profitability recorded improvement, it remained subdued due to higher finance cost and withdrawal of tax exemption for the Modaraba sector. The Company is projecting higher revenue growth on the back of planned enhanced capital.

Funds mobilization constrained

Funds of FPM are mobilized through issuance of Certificate of Musharaka (COMs) which stood at Rs. 174m at end Q1' 23. As per changes in the Prudential Regulations for Modaraba Companies last year, issuance of COMs was capped at existing levels during the interim period allowed for meeting the minimum capital requirements. While the compliance period has been extended for 3 years in Aug 2022, COM's shall remain capped at levels when the original regulations were issued. Funds mobilization, consequently, shall remained constrained and future growth shall underpinned on materialization of capital enhancement plans. Liquidity profile continued to remain within manageable levels with current ratio recorded at 3.5x (FY22: 3.7x).

FINANCIAL SUMMARY	FY19	FY20	FY21	FY22	Q1'23
BALANCE SHEET					
Total Financing*	250.48	220.43	209.57	201.01	172.32
Murabaha financing	*168.10*	*135.95*	*145.62*	*155.61*	*133.36*
Diminising musharaka financing	*20.41*	*33.88*	*15.05*	*3.47*	*2.04*
Musharaka financing	*50.96*	*40.01*	*40.00*	*40.00*	*35.00*
Modaraba financing	*10.99*	*10.59*	*8.90*	*1.93*	*1.92*
Cash and Cash Balances	20.00	75.85	95.13	78.99	94.54
Total Assets	463.52	447.27	458.28	466.49	474.75
COMs	172.26	178.35	179.22	179.70	182.08
Total Liabilities	247.95	238.99	247.11	251.56	258.44
Paid up capital	137.88	137.88	137.88	137.88	137.88
Net Worth	215.57	208.28	211.16	214.91	216.31
INCOME STATEMENT					
Operating Revenue	219.16	185.69	108.35	306.79	50.71
Net (Provisioning) / Reversal	0.73	(0.34)	0.06	(2.54)	-
Operating Expenses	192.21	163.17	91.92	277.66	45.51
Profit (Loss) Before Tax	12.09	6.50	7.70	15.11	1.97
Profit (Loss) After Tax	12.09	6.50	7.70	9.96	1.40
RATIO ANALYSIS					
Gross Infection (%)	0.9%	1.2%	1.2%	1.3%	N/A
Efficiency (%)	87.7%	87.9%	84.8%	90.5%	89.7%
ROAA (%)	2.6%	1.4%	1.7%	2.2%	0.3%
ROAE (%)	5.6%	3.1%	3.7%	4.7%	0.6%
Debt Leverage (x)	1.2	1.1	1.2	1.171	1.195
Current Ratio (x)	3.0	3.2	2.9	3.7	3.5
Leverage (COMS/Net Worth)	0.80	0.86	0.85	0.84	0.84

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
12/21/2022	BBB	A-3	Stable	Maintained
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. Ifham Khan	CFO	24-Nov-2022