

## RATING REPORT

### First Paramount Modaraba

**REPORT DATE:**

December 13, 2023

**RATING ANALYST:**

Nikeeta Rani

[nikeeta.rani@vis.com.pk](mailto:nikeeta.rani@vis.com.pk)

RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB	A-3	BBB	A-3
Rating Date	Dec 13, 2023		Dec 21, 2022	
Rating Outlook	Reaffirmed		Maintained	
Rating Action	Stable		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
<i>General Public (Local) – 70.8%</i>	
<i>General Public (Local) – 7.4%</i>	
<i>Associated Companies – 14.6%</i>	

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Non-Bank Financial Companies (March 2020)

<https://docs.vis.com.pk/docs/NBFCs202003.pdf>

#### APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

## First Paramount Modaraba (FPM)

### OVERVIEW OF THE INSTITUTION

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. 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). The Modaraba is listed on the Pakistan Stock Exchange (PSX).

#### Key Rating Drives:

##### Compliance with “The Modaraba Regulation 2021”

The Securities and Exchange Commission of Pakistan (SECP) has issued "The Modaraba Regulations 2021," which established specific requirements for deposit-taking Modaraba companies. These requirements include:

- 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 extended a period of three years for deposit-taking Modarabas to comply with the aforementioned conditions. Currently, FPM complies with the CAR ratio requirement with a substantial cushion but falls short of the capital and credit rating criteria. The Company's total equity at the end of FY23 was Rs. 221 million (FY22: Rs. 214.9m). FPM intends to increase its equity by issuing Sukuk or right shares over the next two years. Additionally, FPM is diversifying its business activities to generate additional profit to expand its equity base. Given the current conditions in the capital market, this may present challenges. VIS will closely monitor FPM's progress in this regard, as enhancement in capital base in line with the regulations will remain critical for credit ratings.

##### Financing portfolio is reflective of conservative lending strategy

Ongoing macroeconomic conditions and heightened credit risk environment has adversely impacted Modaraba's tendency to lend. Although there are no new defaulting debtors in Modaraba's portfolio, capacity to borrow at such a higher cost is generally lower in the business community. Ratings encapsulates conservative lending strategy of the Company for maintenance of clean financing book whereby total financing has decreased to Rs. 146m (FY22: Rs. 201m) at end FY23, primarily driven by decline in murabaha financing. Financing portfolio constituted about 32% (FY22: 43%) of the total assets at end FY23, whereby major contributors continued to be murabaha financing, accounting for 79% of financing portfolio.

Non-performing loans continued to remain minimal in FY23 which stood at Rs. 2.4m. Consequently, gross infection was recorded low at 1.6 %.

**In-house ventures continue to drive revenue growth**

Segment Revenue Break-up	FY22	% of Total	FY23	% of Total
<b>Financing</b>	25	8%	25	8%
<b>FPM Petro</b>	274	89%	282	88%
<b>FPM Solutions</b>	8	3%	16	5%
<b>Total</b>	<b>307</b>	<b>100%</b>	<b>323</b>	<b>100%</b>

In-house ventures contributed towards uptick in revenues in FY23. The main contributing business units included:

- **FPM Solutions:** Engaged in providing electrical maintenance and troubleshoot services.
- **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.

Modaraba's in house venture "FPM Petro" has performed reasonably well during the period and recorded historically high revenue at Rs.282m in FY23. The venture has also expanded its product offerings which is anticipated to yield higher returns in the future. .

Consequent to the year end, with the permission of SECP, FPM has launched a wholly owned subsidiary "FPM Compliance Pvt Ltd" to scale up the areas of operations of Anti-Money Laundering and Combating the financing of Terrorism (AML CFT) related business.

Overall, bottom line profitability of FPM deteriorated on account of higher finance cost. Liquidity profile continued to improve with current ratio recorded at 4.5x (FY22: 3.7x).in FY23. Debt leverage also reduced to 1x in FY23 (FY22: 1.17x)

**Balance sheet growth constrained by limitations on deposit mobilization**

Funds of FPM are mobilized through issuance of Certificate of Musharaka (COMs) which stood at Rs. 171m at end FY23. 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 remain constrained and future growth shall remain underpinned on materialization of capital enhancement plans.

**First Paramount Modaraba**
**Appendix I**

<b>FINANCIAL SUMMARY</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
<b><u>BALANCE SHEET</u></b>					
<b>Total Financing*</b>	250	220	210	201	147
Murabaha financing	168	136	146	156	115
Diminishing musharaka financing	20	34	15	3	1
Musharaka financing	51	40	40	40	29
Modaraba financing	11	11	9	2	2
<b>Cash and Cash Balances</b>	20	76	95	79	46
<b>Total Assets</b>	464	447	458	466	454
<b>COMs</b>	172	178	179	180	171
<b>Total Liabilities</b>	248	239	247	252	232
<b>Paid up capital</b>	138	138	138	138	138
<b>Net Worth</b>	216	208	211	215	221
<b><u>INCOME STATEMENT</u></b>					
<b>Operating Revenue</b>	219	186	108	307	322
<b>Net (Provisioning) / Reversal</b>	1	(0)	0	(3)	0
<b>Operating Expenses</b>	192	163	92	278	296
<b>Profit (Loss) Before Tax</b>	12	6	8	15	12
<b>Profit (Loss) After Tax</b>	12	6	8	10	7
<b><u>RATIO ANALYSIS</u></b>					
<b>Gross Infection (%)</b>	0.9%	1.2%	1.2%	1.2%	1.6%
<b>Efficiency (%)</b>	87.7%	87.9%	84.8%	90.5%	91.8%
<b>ROAA (%)</b>	2.6%	1.4%	1.7%	2.2%	1.4%
<b>ROAE (%)</b>	5.6%	3.1%	3.7%	4.7%	3.0%
<b>Debt Leverage (x)</b>	1.2	1.1	1.2	1.171	1.049
<b>Current Ratio (x)</b>	3.0	3.2	2.9	3.7	4.5
<b>Leverage (COMS/Net Worth)</b>	0.80	0.86	0.85	0.84	0.77

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	First Paramount Modaraba				
<b>Sector</b>	Modaraba				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	12/13/2023	BBB	A-3	Stable	Reaffirmed
	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	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Mr. Ifham Khan	CFO	20-Nov-2023		