

RATING REPORT

First Paramount Modaraba

REPORT DATE:

January 16, 2025

RATING ANALYST:

Musaddeq Ahmed Khan

musaddeq@vis.com.pk

Rating Category	RATING DETAILS		Previous Rating	
	Latest Rating		Long-term	Short-term
Entity	BBB	A3	BBB	A3
Rating Date	January 16, 2025		December 13, 2023	
Rating Outlook	Reaffirmed		Reaffirmed	
Rating Action	Stable		Stable	

COMPANY INFORMATION

Incorporated in 1994	External Auditors: Crowe Hussain Chaudhury & 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) – 57.4%</i>	
<i>Associated Companies – 14.3%</i>	
<i>Shareholders holding 5% or more – 11.4%</i>	
<i>General Public (Foreign) – 6.9%</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Non-banking Financial Companies

<https://docs.vis.com.pk/Methodologies%202024/NBFCs202003.pdf>

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:

First Paramount Modaraba (FPM or the 'Modaraba') is a multipurpose, perpetual and multidimensional Modaraba floated under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the rules framed there under and is managed by Paramount Investments Limited (the Management Modaraba), a company incorporated in Pakistan under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) on June 26, 1994. The Modaraba is listed on the Pakistan Stock Exchange Limited. The registered office is situated in Karachi. The Modaraba's principal activities include deployment of funds on murabaha, modaraba and musharaka arrangements, along with operating multiple in-house ventures including: (a) Electrical maintenance and troubleshooting services under the name of 'FPM Solutions' (b) Chemical business under the name of 'FPM Petro Services' (c) Anti-money laundering screening services under the name 'FPM AML – CHECK'.

Auditor's Opinion

The FY24 financial statements were audited by Riaz Ahmad & Co. Chartered Accountants, which is a QCR rated firm and categorized as 'Category A' on the SBP's Panel of Auditors. The auditor issued an unmodified opinion on the financial statements. However, the auditor has included emphasis of matter that FPM is non-compliant with the credit rating and minimum equity requirements as stipulated in Modaraba Regulations, 2021.

Auditors for FY25 have been changed to Crowe Hussain Chaudhury & Co. Chartered Accountants, which is also a QCR rated firm and categorized as 'Category A' on the SBP's Panel of Auditors.

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 PKR 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 cushion but falls short of the capital and credit rating criteria. The Company's total equity at the end of Sep'24 was PKR 256.3m (Jun'24: PKR 250.0m; Jun'23: PKR 221.5m).

To address the shortfall, FPM plans to increase its equity through the issuance of Tier 2 capital. As per the management, request seeking approval for the issuance of Tier 2 capital have been submitted to the SECP. In case the FPM fails to secure regulatory approval for Tier 2 capital, alternative measures, such as director/sponsor loans, may be considered to meet the minimum capital requirement. VIS will closely monitor FPM's progress in this regard, as enhancement in capital base in line with the regulations will remain critical for the credit ratings.

Financing portfolio is reflective of conservative lending strategy

The financing portfolio contracted to PKR 101.4m as of Jun'24 (Jun'23: PKR 146.9m) as part of a strategic decision to adopt a conservative lending approach. During FY24, total disbursements amounted to PKR 38.8m, while total recoveries amounted to PKR 83.1m. Financing portfolio constituted about 21% (Jun'23: 32%) of the total assets at end Jun'24. The portfolio primarily comprises murabaha financing (~75%), followed by musharaka financing (~25%). According to the management, this decision was driven by high markup rate scenario, market risks and economic uncertainty, prompting a reallocation of resources towards other in-house ventures that offer higher yields. These ventures, such as FPM Petro Services, have demonstrated higher revenue generation potential, compensating for the scaled-back financing activities.

FPM's strategy has contributed to credit risk management, reflected in the low level of non-performing loans and a gross infection ratio of 2.1% (FY23: 1.6%). The slight increase in the gross infection ratio is attributed to the base effect caused by a reduction in the financing portfolio rather than an uptick in non-performing loans. Non-performing loans were reported at PKR 2.1m (Jun'23: PKR 2.4m) as of Jun'24.

Gross infection reduced to 1.5% in 1QFY25, owing to increase in financing portfolio, which stood at PKR 115.2m as of Sep'24, with no increase in non-performing loans.

Strategic shift towards in-house ventures

FPM has diversified its operations beyond traditional financing by establishing several in-house ventures. The primary in-house ventures include FPM Petro Services and FPM Solutions, each catering to distinct market segments and revenue streams.

Segment Revenue Break-up (PKR million)	FY23	% of Total	FY24	% of Total
Financing	24.9	7.8%	16.1	2.8%
FPM Petro	282.2	87.5%	549.0	96.5%
FPM Solutions	15.3	4.7%	4.0	0.7%
Total	322.4	100.0%	569.1	100.0%

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. FPM Petro Services remains the flagship in-house venture, demonstrating remarkable growth in FY24. Revenue from this segment surged to PKR 549.0m, accounting for 96.5% of total revenues, compared to PKR 282.2m in FY23, representing 87.5% of total revenues. FPM Petro Services primarily serves large oil service companies, maintaining consistent demand. Management has indicated plans to explore international markets through the export of these products.

Overall, in FY24, revenue from in-house ventures witnessed substantial growth, with total contribution rising to PKR 553.0m (FY23: PKR 297.5). This surge highlights the increasing importance of these ventures in FPM’s overall business model. The revenue contribution of in-house ventures to the total revenue expanded to 97.2% in FY24 (FY23: 92.2%).

FPM AML – CHECK, focusing on IT-based services, offers Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) screening solutions. It is a key strategic venture for the future. FPM has launched a wholly owned subsidiary “Paramount Compliance Private Limited” to scale up the areas of operations of AML and CFT related business. Additionally, FPM has registered a company in UK, namely ‘Complytech Global Limited’, to access international markets, seeking potential in emerging markets.

Also, FPM is working on a real estate tokenization venture to facilitate fractional ownership of real estate assets. The initiative utilizes blockchain technology to tokenize properties, enabling them to be traded as digital assets. Regulatory approvals from the Securities and Exchange Commission of Pakistan (SECP) are expected by February 2025. The venture aims to enhance accessibility and liquidity in real estate investments.

Improved profitability owing to scaling of in-house venture

FPM recorded an improvement in profitability during FY24, driven by growth in operating revenue. Operating revenue increased to PKR 569.1m, a 76.5% rise from PKR 322.4m in FY23. Operating expenses also rose, reaching PKR 509.5m (FY23: PKR 295.9m) in FY24. This increase was primarily attributed to higher operational activity and increase in direct costs associated with scaling FPM Petro Services. Despite the rise in expenses, the efficiency ratio improved to 89.5% (FY23: 91.8%) in FY24, reflecting better cost management relative to revenue growth. As a result, profit before tax increased to PKR 40.7m (FY23: PKR 11.8m). Similarly, profit after tax grew to PKR 28.5m, up from PKR 6.5m in the previous year, reflecting an improvement in net profitability.

Profitability was sustained in 1QFY25, with operating revenue amounting to PKR 143.3m. Operating expenses were recorded at PKR 129.9m, resulting in a bottom line of PKR 6.3m and an efficiency ratio of 90.7%.

Sound Liquidity Profile

The liquidity profile of the entity demonstrates adequacy in meeting the short-term obligations, as evidenced by the current ratio. The current ratio increased to 4.87x in 1QFY25 (FY24: 4.35x; FY23: 4.69x), indicating adequate liquidity.

Trade debtors increased significantly to PKR 171.6m (Jun'24: PKR 175.8m; Jun'23: PKR 95.9m) as of Sep'24. This rise was primarily attributed to an increase in trade activities under FPM Petro Services. Notably, approximately 94% of the receivables were classified as current as of Jun'24, reflecting efficient management of receivables.

Balance sheet growth constrained by limitations in deposit mobilization

FPM mobilizes funds through the issuance of Certificates of Musharaka (COMs), which amounted to PKR 171.1m at the end of Sep'24. Changes in the Prudential Regulations for Modaraba Companies have capped the issuance of COMs at their existing levels during the interim period allowed for meeting the minimum capital requirement. Although the compliance period was extended by three years in August 2022, the cap on COMs remains at the levels specified when the original regulations were introduced. Consequently, the ability to mobilize additional funds is constrained, and future growth will depend on the successful implementation of capital enhancement plans.

First Paramount Modaraba (FPM)
Appendix I

FINANCIAL SUMMARY					
PKR in millions					
<u>BALANCE SHEET</u>	Jun'21	Jun'22	Jun'23	Jun'24	Sep'24
Total Financing	207.2	201.0	146.9	101.4	115.2
Murabaha financing	145.6	155.6	115.4	75.5	89.3
Diminishing musharaka financing	12.7	3.5	0.7	0.0	0.0
Musharaka financing	40.0	40.0	28.9	25.9	25.9
Modaraba financing	8.9	1.9	1.8	0.0	0.0
Trade debtors	58.2	67.7	91.4	175.3	171.6
Cash and Cash Balances	95.1	79.0	46.4	47.1	5.9
Total Assets	457.0	466.5	449.7	474.9	473.3
Certificate of Musharaka (COMs)	177.5	177.5	167.5	168.4	171.1
Total Liabilities	245.8	251.6	228.2	224.9	216.9
Paid up capital	137.9	137.9	137.9	137.9	137.9
Net Worth	211.2	214.9	221.5	250.0	256.3
<u>INCOME STATEMENT</u>	FY21	FY22	FY23	FY24	1QFY25
Operating Revenue	108.4	306.8	322.4	569.1	143.3
Net (Provisioning) / Reversal	0.1	(2.5)	0.0	(0.2)	0.4
Operating Expenses	91.9	277.7	295.9	509.5	129.9
Profit (Loss) Before Tax	7.7	15.1	11.8	40.7	8.9
Profit (Loss) After Tax	7.7	10.0	6.5	28.5	6.3
<u>RATIO ANALYSIS</u>	FY21	FY22	FY23	FY24	1QFY25
Gross Infection (%)	1.2%	1.2%	1.6%	2.1%	1.5%
Efficiency (%)	84.8%	90.5%	91.8%	89.5	90.7%
ROAA (%)	1.7%	2.2%	1.4%	6.2%	5.3%*
ROAE (%)	3.7%	4.7%	3.0%	12.1%	10.0%*
Debt Leverage (x)	1.16	1.17	1.03	0.90	0.85
Current Ratio (x)	2.89	3.67	4.69	4.35	4.87
Leverage (COMS/Net Worth)	0.84	0.83	0.76	0.67	0.67

*Annualized

REGULATORY DISCLOSURES		APPENDIX II				
Name of Rated Entity	First Paramount Modaraba					
Sector	Modaraba					
Type of Relationship	Solicited					
Purpose of Rating	Entity Ratings					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/ Watch	Rating Action	
	RATING TYPE: ENTITY					
	01/16/2025	BBB	A3	Stable	Reaffirmed	
	12/13/2023	BBB	A3	Stable	Reaffirmed	
	12/21/2022	BBB	A3	Stable	Maintained	
	12/31/2021	BBB	A3	Rating Watch-Developing	Maintained	
	12/30/2020	BBB	A3	Stable	Reaffirmed	
	12/27/2019	BBB	A3	Stable	Reaffirmed	
	12/28/2018	BBB	A3	Stable	Reaffirmed	
	12/29/2017	BBB	A3	Stable	Reaffirmed	
	12/30/2016	BBB	A3	Stable	Maintained	
	12/29/2015	BBB	A3	Positive	Reaffirmed	
	12/26/2014	BBB	A3	Positive	Maintained	
	1/28/2013	BBB	A3	Stable	Reaffirmed	
8/8/2011	BBB	A3	Stable	Upgrade		
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.					
Disclaimer	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 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.					
Due Diligence Meetings Conducted	Name	Designation		Date		
	Mr. Syed Wajih Hasan	CEO		31 st December 2024		
	Mr. Syed Mudassir Ali	CFO				