

RATING REPORT

First Paramount Modaraba

REPORT DATE:

December 27, 2019

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 27, '19	Dec 28, '18
Rating Outlook	Stable	Stable

COMPANY INFORMATION

Incorporated in 1993	External Auditors: Deloitte Yousuf Adil, 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) – 72.2%</i>	
<i>Associated Companies – 14.6%</i>	

APPLICABLE METHODOLOGY(IES)

 VIS Entity Rating Criteria: Non-Bank Financial Companies <http://vis.com.pk/Images/NBFC.pdf>

 VIS Entity Rating Criteria: Modaraba Rating Scale <http://www.vis.com.pk/images/JCR-Mod.pdf>

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

Established in 1995, First Paramount Modaraba (FPM) is managed by Paramount Investments Limited (PIL) holding almost 15% of certificates in the company. The primary activities of modaraba include murabaha and musharaka financing and deployment of funds in in-house ventures. Majority shareholding of the company is vested with general public.

Financing Portfolio: Financing portfolio represents 54% (FY18: 49%; FY17: 50%) of total assets and includes various in-house ventures under Musharakah financing arrangements while their performance is highlighted below:

- **Generator Project Musharaka Finance:** The generator project includes supply of generators on rent. This project is in partnership with “Al-Burq Associates”.
- **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. The company is also exploring new opportunities in the IT space which may bode well for future profitability of FPM.
- **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.
- **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.**
- **FPM Geo Dynamics International:** Engineering products and solutions to upstream service companies.

Financing portfolio (net of deferred income) of FPM declined by 8% to Rs. 250.5 (FY18: 217.9m) at end-FY19. Murabaha financing continues to represent the largest chunk of the portfolio; murabaha contributes more than two-thirds of total financings. Although top ten clients represent 52% of the murabaha portfolio, a single exposure does not exceed more than 10% of its equity base. Nonetheless, quality of the financing portfolio must be maintained in order to ensure sustainability and growth in earnings. During FY19, infection levels of the company were reported below 1% on gross basis.

Profitability: Revenue base of the company decreased on account of lower revenue from FPM Petro business as one of the clients delayed renewal the contract. However, similar decrease in variable expenses led to lower operating expense. As a result, efficiency ratio improved to 88% (FY18: 91%). Although finance cost increased, better efficiency resulted in improved profitability of the company. Going forward, management projects its in-house ventures to continue supporting its profitability levels.

Funding and Capitalization: FPM only mobilizes funds through Certificate of Musharaka (CoMs). Cost on CoMs varies from 6% to 8.5% depending on the tenor of the instrument. Quantum of CoMs has remained stagnant at Rs. 172m (FY18: Rs. 169m) at end-FY19. Net equity stood at Rs. 215.6m (FY18: Rs. 213.1m; FY17: Rs. 212.6m) at end-FY19. With higher equity, debt leverage has remained above 1(x) as at end-FY19 at 1.2x (FY18: 1.1x). 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			
<u>BALANCE SHEET</u>	30-Jun-19	30-Jun-18	30-Jun-17
Total Financing*	250.5	232.0	233.3
Total Assets	466.9	444.2	465.9
COMs	172	169	170.7
Paid Up Capital	137.8	137.8	137.8
Net Worth	215.6	213.1	212.6
<u>INCOME STATEMENT</u>			
Operating Income	219.2	257.1	202.2
Net (Provisioning) / Reversal	0.7	(1.3)	(2.7)
Operating Expenses	192.2	233.1	178.1
Profit (Loss) Before Tax from continuing operations	12.1	11.1	7.2
Profit (Loss) After Tax from continuing operations	12.1	10.9	7.2
Loss from discontinued operations	-	-	-
Profit after tax	12.1	10.9	7.2
<u>RATIO ANALYSIS</u>			
Infection (%)	0.9	1.3	3.5
ROAA (%)	2.7	2.4	1.5
ROAE (%)	5.6	5.1	3.4
Debt Leverage (x)	1.2	1.1	1.2
Current Ratio (x)	2.8	3.1	5.2

**Net of deferred income*

** principal overdue for more than 1 year is classified*

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
	<u>RATING TYPE: ENTITY</u>				
	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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