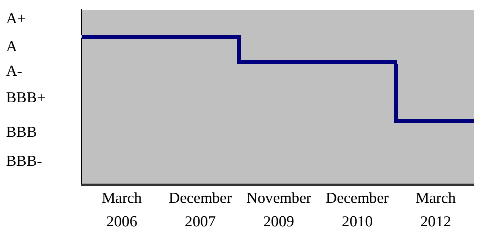
RATINGS (MARCH 2012)
FIRST PUNJAB MODARABA [FPM]

ENTITY	NEW	PREVIOUS
LONG TERM	**BBB**	**A-**
SHORT TERM	**A3**	**A2**
OUTLOOK	**Negative**	**Negative**

FPM L.T. ENTITY RATING HISTORY



FINANCIAL DATA
PKR (MLN)

	FY11	FY10
Total Assets	2,628.4	2,665.1
Total Finances	1,281.2	1,575.4
Net Non Performing Finances	1,109.4	958.9
Equity	296.5	370.0
Profit/Loss after Tax	(70.2)	7.0
Equity/ Assets (%)	11.3	13.9
Impaired lending/ Gross Finances (%)	46.4	37.8
Total Debt/ Equity (%)	662.5	497.5

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RATING RATIONALE & KEY DRIVERS

- The ratings reflect deterioration in the stand-alone risk profile of the Modaraba. The sponsoring institution – a medium sized bank, The Bank of Punjab – stands behind the Modaraba and is the main contributor towards FPM's funding base. Although the ratings draw significant comfort from this association, the support needs augmentation to mend the risk profile of FPM. Nevertheless, the Modaraba's operations are still above the break-even sustenance level though the distance is fast reducing. The management is persisting in its efforts of business consolidation while curtailing further delinquencies and expediting the recovery procedure.
- The outlook on the ratings is negative, given declining revenue base and profitability, and increasing provisioning requirement. The ratings are dependent on the management's success to consolidate its operations, in-turn developing a profitable revenue stream. Meanwhile, any weakening in the perceived support from the sponsoring bank would carry negative implications for the ratings.

ASSESSMENT

- The Modaraba has been engaged in three types of financing activities; (a) Ijarah, (b) Morabaha and (c) Diminishing Musharika. Ijarah dominates the portfolio (65%) followed by Morabaha (30%) and Diminishing Musharika (5%). Ijaraha focuses on plant & machinery (81%), and vehicles (17%). Morabaha targets raw material (working capital) financing of different sectors. Meanwhile, Diminishing Musharika basically focus on plant & machinery financing in Jute & Flour segments.
- During FY11, the Modaraba's gross revenue increased marginally despite reduction in the financing portfolio. This was mainly attributable to the lower amortization of leased assets on YoY basis. Moreover, in spite of higher borrowings, financial charges declined slightly owing to lower interest rate environment. This dual benefit almost doubled the Modaraba's net revenue. The operating expenses, apart from inflation, went up as the Modaraba strengthened its HR in certain functions. Nevertheless, the profitability was mainly impacted due to higher provisioning as an outcome of aging NPL portfolio. During 1QFY12, the gross revenue witnessed further dip. Herein, Ijarah lease was the main reason, due to its downsizing in the wake of restrained fresh business. Moreover, aging portfolio resulted in higher provisioning.
- Going forward, the management while stimulating its recovery efforts intends to achieve sustainability in the financing portfolio through deposit mobilisation. Herein, the main reliance would be on both explicit and implicit support of the sponsoring bank. The translation of this support and timeliness thereof would be critical for future viability. At the same time, mending of the impaired portfolio through various means would be another area of attention for 2012. Redeployment of finances would be made in low risky avenues, wherein repossession and resale would be relatively convenient.
- The main factor behind the Modaraba's weakening performance is the deteriorating quality of its finances portfolio. Cognizant of the fact, the Modaraba adapted a cautious lending approach as its finances contracted. However, owing to continued economic challenges, NPLs surged to PKR 1,109mln at end-Sep11 (end-Jun10: PKR 959mln). This elevated NPL/Finances ratio to 50% (end-Jun11: 46%) with net NPL/equity standing at 270%, signifying a potential erosion on FPM's equity. Although, FPM benefits from sizable FSV, its net non-earning assets are around three times of the Modaraba's equity.
- With 30% provision coverage as at end-Dec11, the Modaraba would be required to make a further sizeable provision (PKR 227mln) on its existing and new portfolio, in a phased manner by FY14. In this regard, revival of the business and presumed reversals would determine FPM's ability to make provisions. Although the list of borderline cases has reduced, the incidence of fresh NPLs may not be ruled out.
- FPM funds its finances book through various means with main reliance on CoMs and Musharika financing. CoMs base has lately experienced squeeze and is concentrated with few depositors. This signifies high redemption risk to which FPM is exposed and also explains the volatility in this base. The Musharika financing is currently available only from the sponsoring bank. FPM is facing constraints in fund raising due to its ailing health and BoP's own inherent limitation given its regulatory regime and its future plans. Funding, being blood line for FPM, remains critical for the Modaraba's viability.

PROFILE

- First Punjab Modaraba, established in 1992, is a perpetual multi-purpose Modaraba listed on all three bourses of the country. The management company, Punjab Modaraba Services (Pvt.) Limited (PMSL), holds ~ 40% stake in the Modaraba. PMSL is a wholly owned subsidiary of The Bank of Punjab (BoP). The bank, majority owned by the government of Punjab, carries a long-term entity rating of 'AA-'.
- The deputy CEO of BoP, Mr. Khalid Tirmizey, chairs the five-member Board of the Modaraba. The CEO, Mr. Khaqan Hasnain Ibrahim, is an MBA and possesses above 30 years of diversified experience in financial management. Of the remaining three board positions, two are held by executive members of BoP while the other is an independent member.

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