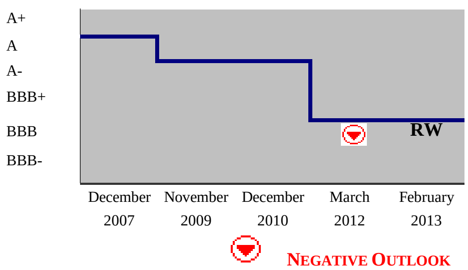
RATINGS (FEBRUARY 2013)
FIRST PUNJAB MODARABA [FPM]

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

Placed on **Rating Watch*

FPM L.T. ENTITY RATING HISTORY



FINANCIAL DATA
PKR (MLN)

	1QFY13*	FY12	FY11
Total Assets	1,806	1,911	2,628
Total Finances (Performing)	707	738	1,281
Net Non Performing Finances	542	560	675
Equity	114^	143^	297
Loss after Tax	(28)	(168)	(70)
Equity/Assets (%)	5.6	6.7	11.3
Impaired lending/ Gross Finances (%)	58.2	56.9	46.4
Total Debt/Equity (times)	14.4	11.9	6.6

** Based on unaudited accounts for three months ended September 30, 2012*

^ Including surplus on revaluation of Fixed Assets

ANALYSTS

M. Shahnawaz Aziz Khanzada
+92 42 35869504
shahnawaz.aziz@pacra.com

Aisha Khalid
+92 42 35869504
aisha@pacra.com

RATING RATIONALE & KEY DRIVERS

- The ratings reflect strong association of FPM with the Bank of Punjab (BoP) – a bank majority owned by the Government of Punjab. On a standalone basis, FPM has weak financial profile, a result of continuous business losses, potential drag of un-provided non-performing loans on already thin equity base, and inadequate liquidity. Nevertheless, BoP, besides providing funding support, is in the process of merging the Modaraba into it.
- The ratings are dependent on timely and successful execution of the sponsor's plan. Considering the merge process, PACRA has placed the ratings of FPM on Rating Watch. In this regard, any weakening in the perceived support from the sponsoring bank would carry negative implications for the ratings.

ASSESSMENT

- During FY12, the performance of the Modaraba remained poor. Due to continuous rise in non-performing book, FPM observed gradual reduction in performing finances portfolio, impacting the reported gross revenues. Additional finance cost incurred mainly to fund non-earning assets resulted in net loss (PKR 40mln) for the Modaraba. Moreover, FPM booked significant provisioning (PKR 104mln), due to aging NPLs. All these factors caused FPM to post a substantial loss during the period, thereby eroding its equity. As Modaraba Management Company with the support of sponsor, has decided to quit the operations, thus during 1QFY13, the performance remained weak.
- The Modaraba's asset quality experienced deterioration during last few years. NPLs, in absolute terms, have more than doubled by end-Sep12 (PKR 985mln) compared to the level at end-Jun09 (PKR 443mln). Though, FPM managed to reduce its NPLs to PKR 984mln in the recent period (end-Jun11: PKR 1,109mln), yet, with limited credit expansion, impaired lending as a percentage of finances increased (1QFY13: 58%; FY10: 39%). Moreover, owing to significant accumulated losses, net NPLs/equity is considered very high (1QFY13: 5.4x; FY12: 4.4x; FY11: 2.3x).
- Going forward, the management would continue to consolidate its scale of business. The sole focus would be towards recoveries. In terms of funding, FPM would completely rely on the support of the parent bank – The Bank of Punjab (BoP) till the completion of proposed merger. The management expects recoveries from performing portfolio adequate to meet third party financial obligations of the Modaraba. The consecutive losses have significantly eroded the equity of FPM, and the auditors of the Modaraba indicated the existence of material uncertainty which may cast significant doubts about the Modaraba's ability to continue as a going concern; however, comfort has been drawn from the sponsors plan to merge the Modaraba into it.
- During FY12, ijarah continued to dominate the finances portfolio of FPM (1QFY13: 62%; FY12: 60%; FY11: 65%) followed by morabaha (1QFY13: 36%; FY12: 35%; FY11: 30%) and diminishing musharaka (1QFY13: 2%; FY12: 5%; FY11: 5%). In terms of the asset mix of ijarah, during the review period, the portion of vehicles increased in the total pie (FY12: 26%; FY11: 19%) as compared to plant & machinery (FY12: 74%; FY11: 81%). Diminishing musharaka funds plant & machinery whereas morabaha is working capital financing. In terms of sectoral mix, FPM observed change in terms of concentration: exposure in the engineering (FY12: 5%; FY11: 20%) and electric goods (FY12: 15%; FY11: 4%) segments recorded significant shift. Sugar segment dominated the total financing portfolio (FY12: 20%; FY11: 17%) followed by textile (FY12: 16%; FY11: 15%) and electric goods (FY12: 15%; FY11: 4%).
- Previously, FPM has been funding its finances book through various means – morabaha, musharaka and certificate of musharaka (CoM). During FY12, FPM started reducing its non-sponsor funding lines, evident from significant reduction in outstanding amount of certificates of musharaka. While most of the repayments were funded from loan recoveries, the Modaraba extended its reliance on musharaka line available from the sponsoring bank.
- Owing to declining equity, FPM carries a significantly high leverage structure with debt-to-equity ratio of more than 14 times, higher than the regulatory requirement (10 times), at end-Sep12.

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 operates a vast network of 284 branches, mainly concentrated in Punjab. The Government of Punjab (GoPb) maintains majority stake in BoP (51%), whereas, 13% is owned by EOBI and the rest by various stakeholders. It carries a long-term entity rating of 'AA-' from PACRA.
- 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.