



The Pakistan Credit Rating Agency Limited

FIRST PUNJAB MODARABA

	NEW [FEB-16]	PREVIOUS [FEB-15]
Long-Term	BBB+	BBB+
Short-Term	A2	A2
Outlook	Stable	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

FIRST PUNJAB MODARABA

RATING REPORT CONTENTS	PAGE
Summary Report	1
Detailed Report:	
▪ Profile	2
▪ Ownership	2
▪ Governance	2
▪ Management	3
▪ Risk Management	3
▪ Business Risk	5
▪ Financial Risk	5
ANNEXURES	
BoD Profile	I
Management Profile	II
Financials	III
Standard Rating Scale	IV
Disclosure	V

PROFILE & OWNERSHIP

- First Punjab Modaraba (FPM), established in 1992, is a perpetual, multipurpose modaraba.
- Listed on Pakistan Stock Exchange.
- Engaged in financing through Ijarah, Morabaha and Diminishing Musharaka.
- Punjab Modaraba Services (Pvt.) Limited (PMSL), the wholly owned subsidiary of The Bank of Punjab (BoP), is the management company of FPM.
- PMSL has ~39% stake in the modaraba.

GOVERNANCE

- BoD comprises six members (where one position is vacant) including CEO of FPM.
- Mr. Khalid Tirmizey, the deputy CEO of BoP, is the chairman.
- Experienced BoD; majority represents the parent bank.
- One independent director.

MANAGEMENT

- Mr Aamir Malik, CEO of FPM has over 23 years of banking experience in different management positions.
- Management team has adequate experience.
- Organizational structure is in re-building process, subsequent to business revival plans.

RISK MANAGEMENT

- FPM portfolio comprises Musharaka (39%), Ijarah (32%) and Morabaha (29%).
- Concentration risk is likely to be addressed with modaraba's plans to focus on vehicle financing for credit growth.
- Slight decrease in NPLs coupled with high equity base limit potential drag on equity (net NPLs/equity: 1QFY16: 5x; FY15: 5x; FY14: 9x).

BUSINESS RISK

- During FY15, decline in earning assets (17%) coupled with lower asset yield on YOY basis, resulted in a significant drop in gross revenue (1QFY16 : PKR 11mln, FY15 : PKR 49mln, FY14 : PKR 87mln).
- FPM managed to register pre-provision operating profit of PKR 126mln in FY15 on account of: (i) one-off gain on sale of security against Morabaha facility, and (ii) reduced administrative cost.
- Going forward, the management intends to; i) grow its financing portfolio targeting medium-sized customers and commercial vehicles through diminishing musharkha, ii) offer brokerage services through wholly owned subsidiary, and iii) continue focus on recovery of NPLs.

FINANCIAL RISK

- Musharaka finance facility by parent bank BoP, a key source of funding (PKR 713mln availed till Sep-15 out of approved PKR 1,060mln facility).
- Certificates of Musharakah (COM) of PKR 100mln issued till Sep-15 to BoP.
- Capital structure shows moderate leveraging; decreasing significantly as shown by total debt/equity ratio (1QFY16: 5x; FY15: 5x; FY14: 11x).

RATING RATIONALE

The ratings of FPM reflect demonstrated commitment of key sponsor – The Bank of Punjab (BoP) – a bank majority owned by the Government of Punjab. On a stand-alone basis, the modaraba's profile remained constrained by its weak performance and limited equity base. The management has been making efforts to revive the business profile; the plan primarily is based on growth in lending book, mainly vehicle financing. As funding is restricted to borrowings from sponsor only, the modaraba, to fuel its growth plans, would pursue regulatory permissions to issue certificates of musharika. The management expects positive results by successful execution of the business plan.

KEY RATING DRIVERS

The ratings are dependent on the management's ability to achieve stable profitability by implementing steer strategy. Meanwhile, any weakening in the support from the sponsor could have negative implications.

INDUSTRY SNAPSHOT

- 25 Modarabas
- Intense competition from established financial institutions (FIs) owing to small network and similar nature of products being offered by these FIs
- High threat of new entrants owing to small capital investment
- Small share in Pakistan's financing industry
- Draft Regulations 2015 circulated by SECP



Financials (Summary)

First Punjab Modaraba

	30-Sep-15	30-Jun-15	30-Jun-14	30-Jun-13
	IQ FY16	Annual	Annual	Annual
BALANCE SHEET				
Assets				
Finances				
1. Morabaha	116	131	152	192
2. Musharaka	156	70	89	51
3. Ijarah	127	140	212	210
Other Earning Assets	25	79	52	110
Other Non-Earning Assets	117	154	146	157
Non-Performing Finances	1,126	1,139	1,169	1,428
Less : Provision for Doubtful Debts	(395)	(407)	(394)	(490)
Net Non Performing Finances	731	731	774	938
Less: Suspended Income	(100)	(100)	(101)	(91)
Total Assets	1,172	1,206	1,324	1,568
Liabilities				
Funding				
1. Certificate of Musharaka	100	100	100	301
2. Morabaha	-	-	-	-
3. Musharaka	713	746	914	994
4. Security Deposits	142	143	173	186
Other Liabilities	56	45	45	57
Equity				
Total Equity	161	171	93	31
Total Liabilities & Equity	1,172	1,206	1,324	1,568
INCOME STATEMENT				
Gross Revenue	11	49	87	86
Financail Charges	(12)	(63)	(87)	(140)
Other Income	0	159	30	5
Operating Expenses	(4)	(19)	(24)	(33)
Pre-Provision Operating Profit/(Loss)	(5)	126	6	(81)
Provisions for Doubtful Debts	12	(23)	56	(30)
Management Fee	-	(4)	(3)	-
Profit Before Taxes	6	98	59	(111)
Net Income	7	95	74	(112)
Ratio Analysis				
Profitability Ratios				
ROA	2.4%	7.5%	5.1%	-6.4%
Cost-to-Total Net Revenue	-403.8%	13.4%	79.8%	-67.6%
Capital Adequacy				
Equity / Total Assets	13.7%	14.2%	7.0%	1.1%
Funding & Liquidity				
Short Term Funding/Total Funding	66.3%	66.3%	59.5%	74.8%
Loan Loss Coverage				
Impaired Lending/Gross Finances	73.8%	77.0%	72.1%	75.9%
Net Impaired Lending/ Equity (%)	4.54	4.28	8.35	52.37

First Punjab Modaraba

Feb-15



STANDARD RATING SCALES & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>High credit risk.</p> <p>A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.</p>	
D	Obligations are currently in default.	

Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Suspension

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.

Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity
Sector
Type of Relationship

First Punjab Modaraba
Modaraba
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Rating Watch
13-Feb-15	BBB+	A2	Stable	-
19-Mar-14	BBB	A3	Stable	-
5-Mar-13	BBB	A3	Stable	RW
13-Mar-12	BBB	A3	Negative	-
13-Jan-11	A-	A2	Negative	-

Related Research

Modaraba - Viewpoint | Sep-15

Methodology:

Non- Banking Finance Companies Methodology

Rating Analysts

Sanna Khan sanna.khan@pacra.com (92-42-35869504)	Aisha Khalid aisha@pacra.com (92-42-35869504)
--	--

Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, 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 done by them.

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities

PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and ii) fee mandate - signed with the payer, which can be different from the entity

PACRA ensures that the credit rating assigned to an entity or instrument should not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security

arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct

relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

None of the information in this document may be copied or otherwise reproduced, stored or disseminated in whole or in part in any form or by any means

Probability of Default (PD)

whatsoever by any person without PACRA's written consent. PACRA reports and ratings constitute opinions, not recommendations to buy or to sell PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's

transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from

PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past.