



The Pakistan Credit Rating Agency Limited

FIRST PUNJAB MODARABA

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

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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 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 good experience.
- During FY16, organizational structure experienced few changes; segregation of business development and business assets departments.

RISK MANAGEMENT

- FPM portfolio comprises Musharaka (65%), Ijarah (25%) and Morabaha (10%).
- Concentration risk is likely to be addressed with modaraba's plans to focus on vehicle financing for credit growth. There is an addition of new Ijarah product line - Home Decore Scheme.
- Slight decrease in NPLs coupled with high equity base limit potential drag on equity (net NPLs/equity: 1QFY17: 4x; FY16: 4x; FY15: 4x).

BUSINESS RISK

- During FY16, with an increase of earning assets (67%) coupled with increased asset yield on YOY basis, resulted in a 50% increase in net interest revenue (1QFY17 : PKR 25mln, FY16 : PKR 73mln, FY15 : PKR 49mln).
- Modaraba in absence of any capital gain and provisioning reversal of PKR 25mln posted a profit after tax of PKR 28mln in FY16 (1QFY17: PKR 5mln; FY16: PKR 28mln; FY15:PKR 95mln).
- Going forward, the management intends to; i) grow its financing portfolio targeting medium-sized customers and commercial vehicles through diminishing musharkha and Ijarah , 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 952mln availed till Sep-16 out of approved PKR 1,060mln facility).
- Certificates of Musharakah (COM) of PKR 200mln issued till Sep-16 to BoP.
- Further support from sponsors is expected through further borrowing and issuance of COMs.
- Capital structure shows increased trend of leveraging (total debt/equity ratio 1QFY17: 7x; FY16: 6x; FY15: 5x).

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. Lately, the Modaraba has witnessed improvement in its standalone business profile exhibited its performance trend; achieving break-even is a key highlight. The Modaraba managed to expand its earning assets, mainly lending book wherein vehicle financing contributed majorly. The sponsor continued its support in the form of a sustainable funding base, which the management expects to increase to fund envisaged growth plans. Meanwhile, the management’s efforts resulted in a decline in delinquency ratio. Further recoveries, as planned, are likely to support Modraba’s performance in the future. The management’s efforts in particular to build strong financing book are expected to yield sustainable results; however, materialization is contingent upon the timely implementation.

KEY RATING DRIVERS

The positive outlook shows improving performance of the Modaraba. Sustainable improvement in operational performance, in turn, achieving bottom line profitability would be critical. Meanwhile, any weakening in the support from the sponsor could have negative implications.



Financials (Summary)				
PKR mln				
First Punjab Modaraba	30-Sep-16	30-Jun-16	30-Jun-15	30-Jun-14
BALANCE SHEET	3M FY17	FY16	FY15	FY14
Assets				
Finances				
1. Morabaha	66	76	131	152
2. Musharaka	496	410	70	89
3. Ijarah	192	180	140	212
Other Earning Assets	23	35	79	52
Other Non-Earning Assets	123	117	154	146
Non-Performing Finances	1,092	1,092	1,139	1,169
Less : Provision for Doubtful Debts	(385)	(383)	(407)	(394)
Net Non Performing Finances	707	709	731	774
Less: Suspended Income	(99)	(100)	(100)	(101)
Total Assets	1,508	1,427	1,206	1,324
Liabilities				
Funding				
1. Certificate of Musharaka	200	100	100	100
2. Morabaha	-	-	-	-
3. Musharaka	952	969	746	914
4. Security Deposits	140	141	143	173
Other Liabilities	47	36	45	45
Equity	169	182	171	93
Total Liabilities & Equity	1,508	1,427	1,206	1,324
INCOME STATEMENT				
Gross Revenue	25	73	49	87
Financail Charges	(18)	(58)	(63)	(87)
Other Income	1	5	159	30
Operating Expenses	(6)	(22)	(19)	(24)
Pre-Provision Operating Profit/(Loss)	2	(2)	126	6
Provisions for Doubtful Debts	0	25	(23)	56
Management Fee	-	(2)	(4)	(3)
Profit Before Taxes	3	21	98	59
Net Income	5	28	95	74
Ratio Analysis				
Profitability Ratios				
ROA	1.3%	2.1%	7.5%	5.1%
Cost-to-Total Net Revenue	72.0%	111.4%	13.4%	79.8%
Capital Adequacy				
Equity / Total Assets	11.2%	12.7%	14.2%	7.0%
Funding & Liquidity				
Short Term Funding/Total Funding	21.6%	14.1%	19.7%	15.5%
Loan Loss Coverage				
Impaired Lending/Gross Finances	59.1%	62.1%	77.0%	72.1%
Net Impaired Lending/ Equity (%)	4.17	3.90	4.28	8.35

First Punjab Modaraba

Sep-16



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	<p>Obligations are currently in default.</p>	

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-16	BBB+	A2	Stable	-
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	-

[Related Criteria and Research](#)

[Related Research](#)

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[Methodology](#)

Non- Banking Finance Companies Methodology

[Rating Analysts](#)

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[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](#)

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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

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[Probability of Default \(PD\)](#)

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.