

First Punjab Modaraba

CREDIT RATING REPORT | SEP-25



Rating History

Dissemination Date	Long-Term Rating	Short-Term Rating	Outlook	Action	Rating Watch
19-Sep-25	A-	A2	Stable	Maintain	-
20-Sep-24	A-	A2	Stable	Maintain	-
20-Sep-23	A-	A2	Stable	Maintain	-
20-Sep-22	A-	A2	Stable	Maintain	-
24-Sep-21	A-	A2	Stable	Maintain	-

About the Entity

First Punjab Modaraba ('the Modaraba'), established in 1992, is a perpetual and multidimensional Modaraba listed on the Pakistan Stock Exchange. The Modaraba is engaged in financing through Ijarah, Morabaha, and Diminishing Musharaka. Punjab Modaraba Services (Pvt.) Limited, a wholly owned subsidiary of The Bank of Punjab (BoP), is the Management Company of the Modaraba and holds a stake of ~39% stake in the Modaraba. General Public holds a stake of ~ 40%. While the remaining ~21% is held by financial institutions. Mr. Ijaz Ul Rehman has been lately nominated as the Board's Chairman. While, Mr. Asim Jahangeer Seth has been lately appointed as the CEO of the Modaraba. They are supported by a well equipped management team.

Rating Rationale

First Punjab Modaraba ('the Modaraba') ratings reflect its association with The Bank of Punjab (BoP) (Rated AA+ by PACRA). The Modaraba's earning assets, particularly in the lending sector, mainly focus on vehicle financing. Income levels are suppressed. Moreover, the declining interest rate trajectory may further impact the Modaraba's income-generating ability. Overall, the growth remains sluggish, with core income performance deteriorating due to high finance costs. The accumulation of losses remains a pressing concern impacting the equity base of the Modaraba, which currently stands at PKR 145mln as of Mar-25 (as of Dec-24: PKR 208mln). The sponsor - Bank of Punjab (BoP) - provided long-term redeemable capital of PKR 1.5bln, along with an injection of a subordinated loan of PKR 500mln in CY24. The sponsor has injected PKR 2 billion as a subordinated loan, which will be reflected on the Modaraba's balance sheet as of June 2025. This was expected to improve the overall liquidity and enhance the business generation capacity. However, challenges in maintaining a healthy equity position persist. Lately, a structural change in the management of the Modaraba has been observed. A comprehensive business plan, approved by the Modaraba's Board, is in process. The sponsor would revitalize their commitment with Modaraba; thus, leveraging the support, the Modaraba can revamp its otherwise weak financial and business profile. The ongoing challenges require vigilance.

Key Rating Drivers

The ratings are dependent on the relative positioning of the Modaraba in the sector and the sustained asset quality of the new portfolio: achieving bottom-line profitability is important. Meanwhile, any weakening in the financial profile or support from the sponsor could have negative implications.

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RELATED RESEARCH

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First Punjab Modaraba

RATING ANALYSIS



Profile

Structure	First Punjab Modaraba ('the Modaraba'), established in 1992, is a perpetual multi-purpose Modaraba, listed on PSX as 'FPJM'.
Background	The Modaraba was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The Modaraba is managed by Punjab Modaraba Services (Pvt) Ltd ('the Management Company'), a wholly-owned subsidiary of The Bank of Punjab (BoP).
Operations	The Modaraba caters to corporate, commercial, and individual customers through various modes of Islamic financing, mainly Ijarah, Morabaha, and Musharikah. Musharikah pertains to vehicle financing. Ijarah focuses on plant & machinery, vehicles, and the Home Decor Scheme. Morabaha targets financing for raw materials (working capital) for different sectors. Its head office is situated in Lahore.

Ownership

Ownership Structure	The Management Company retains ~39% ownership in the Modaraba, while ~21% of the shareholding is distributed among various financial institutions and corporate entities. The general public holds the remaining ~40%.
Stability	The Modaraba is managed by the Management Company, so the BoP stands behind the Modaraba as it has been providing financial assistance for years. As the Government of Punjab is the majority shareholder of BoP, it will also provide comfort to the Modaraba.
Business Acumen	The Modaraba benefits from the BoP's industry-specific expertise in lending and financing a diverse range of customers and sectors across Pakistan.
Financial Strength	BoP has committed its financial support to meet the mandatory capital requirements and also, has also furnished a support letter from its Board. As of CY24, the BoP's total assets amount to PKR 2,380bln and is assigned a long-term rating of "AA+" by PACRA.

Governance

Board Structure	The Board of Directors (BoD) comprises eight members, including the CEO. Apart from the CEO, who is an Executive Director, the Board includes five Non-Executive Directors and two Independent Directors.
Members' Profile	Mr. Ijaz Ul Rehman, the Chairman, has diversified experience in handling financial affairs in different capacities with over 26 years of post-qualification experience. Presently, he is serving the BoP as Group Head Operations at the BoP. Mrs. Samina Afsar, an independent director, has 17years of experience. She has been associated with the Modaraba for five years. Other Board members have diverse experience to facilitate the decision and policy making process.
Board Effectiveness	To enhance the Board's effectiveness, the Modaraba has established three Board-level committees: the Audit Committee, the Human Resource Committee, and the Risk Management Committee. These committees have met 5 times during CY24. Audit committee met quarterly while other committees meet at least annually. The minutes of these meetings are properly maintained.
Financial Transparency	Kreston Hyder Bhimji & Co. Chartered Accountants, external auditor of the Modaraba, have expressed an unqualified opinion on the review of the financial statements for CY24. The auditor is also present on the SBP Panel of auditors.

Management

Organizational Structure	The Modaraba's operations are segregated and managed through the Executive Director and Departmental Heads. All department heads report directly to the CEO, with the exception of Internal Audit, which reports directly to the Board Audit Committee
Management Team	Mr. Asim Jahangir Seth has been lately appointed as the CEO during Mar-25. Mr. Asim has been with the Modaraba since Mar-25, previously serving as the Corporate Business Head. Mr. Zeeshan Ahmed, the CFO, has been associated with the Modaraba for over a year. A new management position has been created introduced which is taken by Mr. Shariz Butt as Chief Operating Officer(COO), previously serving as CFO of Trust Modaraba and possess 18 years of banking experience. The team comprises a balanced mix of professionals. The rest of the team comprises a balanced mix of experienced professionals.
Effectiveness	The Modaraba has four committees for better functioning of its affairs: i) Credit Committee, ii) Investment Committee, iii) Asset and Liability Committee, and iv) Management Committee. To ensure adherence to policies & procedures, management committees are working effectively.
MIS	The Modaraba has acquired an online, centralized AI-Nizam Solution that has been custom-developed in a server application architecture that will help in managing the business processes easily and efficiently.
Risk Management framework	The Modaraba has implemented the Obligor Risk Ratings (ORRs) module to support prudent credit decisions. This solution enhances the Modaraba's system, making it real-time, user-friendly, and secure.

Business Risk

Industry Dynamics	The business environment in the country remained challenging, and measures taken by the Government toward economic stabilization have impacted overall business sentiments. Due to adverse economic indicators in recent periods, the scenario has turned into a gloomy outlook. The transportation sector has also been under strain and disbursements in the vehicle business were conservatively reduced, however gradual revival of the sector seems imminent. The cost of business has risen and NBFCs continue to face stiff competition from banks.
Relative Position	The Modaraba has established itself as one of the leading players in the Modaraba industry, acquiring a share of ~3.68% based on total assets as of 3MCY25.
Revenues	During CY24, the Modaraba's advances income reflected an uptake of ~13% reporting at PKR 276mIn (CY23: PKR 244mIn). Diminishing musharikhah financing remained the top contributor with generating ~80%. During 3MCY25, the advances income reported at PKR 59mIn, reflecting a decrease of ~25% (3MCY24: PKR 79mIn). Going forward, overall performance is expected to increase.
Performance	During CY24, the Modaraba's net markup income reported a loss of PKR 12mIn (CY23: Loss of PKR 51mIn), with the increased loss attributed to higher markup expenses during the period. Additionally, during 3MCY25, the Modaraba reported a net markup loss of PKR 23mIn (3MCY24: PKR 16mIn). The overall performance deteriorated due to Non-Markup expenses made during CY24, but net losses reduced to PKR 94mIn (CY23: PKR 112mIn). During 3MCY25, the Modaraba reported a net loss of PKR 63mIn (3MCY24: of PKR 3mIn). Going forward, the overall business performance is expected to remain stressed.
Sustainability	Lately, a structural change in the management of the Modaraba has been observed. A comprehensive business plan, approved by the Modaraba's Board, is in process. The sponsor would revitalize their commitment with Modaraba; thus, leveraging the support, the Modaraba can revamp its otherwise weak financial and business profile. The ongoing challenges require vigilance.

Financial Risk

Credit Risk	The Modaraba seeks to manage its credit risk exposure through diversification of Ijarah activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. The Modaraba also obtains security deposits when appropriate. Cash at Banks is held only with reputable banks with high-quality
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creditworthiness. Credit risk is highest in the Aviation and Transport sector. Going forward the Modaraba intends to have a mix of corporate and individuals customers to manage its credit risk.

Market Risk

Market risk includes currency risk, interest rate risk, and price risk. The Modaraba is exposed to interest rate risk only. The Modaraba does not have any fixed-rate financial assets and liabilities. However, going forward the decrease in interest rate will have an impact on the profitability of the company.

Liquidity and Funding

The total funding of the Modaraba declined by ~2% to PKR 2,036mln during CY24 (CY23: PKR 2,078mln) and remained stagnant during 3MCY25, reporting at PKR 2,035mln. Funding is solely from the sponsor in the form of deposits. During CY24, the sponsor provided long-term redeemable capital of PKR 1.5bln, which has lately been restructured, to enhance the liquidity position of the Modaraba. BoP has affirmed its commitment to continuing financial assistance. Liquid assets declined significantly to PKR 23mln during CY24 (CY23: PKR 234mln) due to a reduction in bank deposits, but increased by ~208% in 3MCY25 due to an increase in bank deposits, which impacted the liquid assets/funding coverage ratio and reported at ~3.5% (CY24:~1.1%). Going forward the liquidity position is expected to improve.

Capitalization

In line with its commitment, the sponsor, BoP, has extended a subordinated loan of PKR 500mln, which has enhanced the equity base and the Modaraba's per party limits as per Modaraba Regulations, 2021. The equity base of the Modaraba reported positive results during the period. During CY24, inclusive of subordinated loan, the equity base stood at PKR 208mln (CY23: PKR 378mln). As at 3MCY25, the equity base was depleted by net loss of (3MCY25: ~PKR 63mln), reporting at PKR 145mln. Going forward, The sponsor has injected PKR 2 billion as a subordinated loan, which will be reflected on the Modaraba's balance sheet as of June 2025.

First Punjab Modaraba

(PKR mln)

FINANCIAL SUMMARY



	Mar-25 3M	Dec-24 12M	Dec-23 12M
A. BALANCE SHEET			
1. Total Finance-net	1,318	1,428	1,379
2. Investments	16	25	50
3. Other Earning Assets	62	14	223
4. Non-Earning Assets	285	301	293
5. Non-Performing Finances-net	180	208	246
Total Assets	1,861	1,976	2,190
6. Funding	2,035	2,036	2,078
7. Other Liabilities	181	232	234
Total Liabilities	2,216	2,268	2,312
Equity	(355)	(292)	(122)
B. INCOME STATEMENT			
1. Mark Up Earned	68	359	308
2. Mark Up Expensed	(91)	(371)	(358)
3. Non Mark Up Income	4	46	24
Total Income	(19)	34	(27)
4. Non-Mark Up Expenses	(16)	(98)	(80)
5. Provisions/Write offs/Reversals	(13)	(9)	(46)
Pre-Tax Profit	(48)	(74)	(153)
6. Taxes	(15)	(21)	42
Profit After Tax	(63)	(94)	(112)
C. RATIO ANALYSIS			
1. PERFORMANCE			
a. Non-Mark Up Expenses / Total Income	-84.8%	289.2%	-295.5%
b. ROE	-77.9%	-45.6%	-166.0%
2. CREDIT RISK			
a. Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	75.0%	81.9%	78.2%
b. Accumulated Provisions / Non-Performing Advances	13.4%	13.4%	0.0%
3. FUNDING & LIQUIDITY			
a. Liquid Assets / Funding	3.5%	1.1%	11.2%
b. Borrowings from Banks and Other Financial Institutions / Funding	0.0%	0.0%	0.0%
4. MARKET RISK			
a. Investments / Equity	-4.5%	-8.7%	-40.8%
b. (Equity Investments + Related Party) / Equity	0.0%	0.0%	0.0%
5. CAPITALIZATION			
a. Equity / Total Assets (D+E+F)	-19.1%	-14.8%	-5.6%
b. Capital formation rate (Profit After Tax + Cash Dividend) / Equity	-86.2%	-77.4%	-890.6%

First Punjab Modaraba

RATING SCALE



Credit Rating

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.

Scale	Long-Term Rating
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	High credit quality. Low expectation of credit risk. 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.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. 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.
B+ B B-	High credit risk. 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.
CCC CC C	Very high credit risk. Substantial credit risk "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.
D	Obligations are currently in default.

Scale	Short-Term Rating
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
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'.	Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.	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, the rating should be considered withdrawn.	A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening. Rating actions may include "maintain", "upgrade", or "downgrade".

Note: This scale is applicable to the following methodology(s):

a) Broker Entity Rating	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Company

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II. Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating **(Chapter III; 12-2-(j))**
- ii. PACRA, the analysts involved in the rating process, and members of its rating committee and their family members do not have any conflict of interest relating to the rating done by them **(Chapter III; 12-2-(e) & (k))**
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA **[Annexure F; d-(ii)]**
- iv. Explanation: for the purpose of the above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee.

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- vi. PACRA has established policies and procedures governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation, or any other market abuse. **(Chapter III; 11-B-(g))**

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- ii. PACRA reviews all the outstanding ratings periodically on an annual basis. Provided that public dissemination of annual review and in an instance of change in rating will be made. **(Chapter III; 17-(b))**
- iii. PACRA initiates an immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating. **(Chapter III; 17-(c))**
- iv. PACRA engages with the issuer and the debt securities trustee to remain updated on all information pertaining to the rating of the entity/instrument. **(Chapter III; 17-(d))**

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i. 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, the actual transition of rating may not follow the pattern observed in the past. **(Chapter III; 14-3(f)(vii))**

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