



The Pakistan Credit Rating Agency Limited

Rating Report

First Punjab Modaraba

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2018	A-	A2	Stable	Maintain	-
30-Dec-2017	A-	A2	Stable	Maintain	-
31-May-2017	A-	A2	Stable	Upgrade	-
28-Dec-2016	BBB+	A2	Positive	Maintain	-
13-Feb-2016	BBB+	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflects the sustained performance and continuous support of the sponsor (The Bank of Punjab). The Modaraba has witnessed improvement in its standalone business profile exhibited in its performance trend; achieving profitability is a key highlight over the last couple of quarters. The Modaraba managed to expand its earning assets, mainly lending book wherein vehicle financing contributed majorly. During the year Modaraba also engaged itself in the new home decor scheme. The key sponsor – The Bank of Punjab (BoP) – a bank majority owned by the Government of Punjab, continued its support in the form of a sustainable funding base, which the management expects to increase to fund envisaged growth plans. The management is in the process of generating the new avenues of funding. By management endeavors, the infected portfolio is gradually reducing and further efforts are being made for recoveries. During FY18 further recoveries, as planned, are likely to support Modaraba’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.

The ratings are dependent on relative positioning of the Modaraba in the sector and 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.

Disclosure

Name of Rated Entity	First Punjab Modaraba
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Non-Banking Finance Companies(Jan-17),Methodology Correlation between long-term and short-term rating scale(Jun-17),Methodology Criteria Modifiers(Jun-17)
Related Research	Sector Study Modaraba & NBFCs(Apr-18)
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FIRST PUNJAB MODARABA	
Incorporated	1992
Major Business	Modaraba
Legal Status	Listed
Head Office	Lahore

PROFILE & OWNERSHIP

- First Punjab Modaraba (FPM), established in 1992, is a perpetual, multipurpose Modaraba.
- Listed on Pakistan Stock Exchange.
- 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.
- Established wholly owned subsidiary as a private limited company under the name of Punjab Capital Securities (Pvt) Limited for equity brokerage.

GOVERNANCE & MANAGEMENT

- Modaraba's BoD comprises six members including CEO, among them, there is one independent director. Majority represents the Bank of Punjab.
- Mr. Khalid Tirmizey, the deputy CEO of BOP, is the chairman of the board, having over 4 decades of experience at several leading commercial banks.
- Mr Aamir Malik, CEO of Modaraba, has over 25 years of banking experience in different management positions. He is supported by adequate management team.

RISK MANAGEMENT FRAMEWORK

- FPM portfolio comprises Majorly Musharaka (80%), Ijarah (15%) and Morabaha (5%) of total finances – more focus on vehicle's financing through Diminishing Musharaka.
- In terms of sectoral mix, Aviation and Transport appeared at the top (FY17: 35%; FY16: 23%) followed by Individuals (FY17: ~28%; FY16: 19%) and Textile (FY17: 8%; FY16: 11%).
- Invested PKR 18mln in new Ijarah product line - Home Decor Scheme.
- Static level of NPLs coupled with decrease in equity base limit.
- Potential drag on equity remains low (net NPLs/equity: 9MFY18: 3.7X; FY17: 3.5x; FY16: 3.9x).
- Acquired an online, centralized Financial Information System (FIS) Solution (integrated business solution).

PERFORMANCE

- During 9MFY18, the Modaraba experienced a slight increase of ~2% YoY in its earning assets (9MFY18: PKR 1,088mln, 9MFY17: PKR 1,065mln).
- Asset yield improved amidst slightly increasing interest rates, resulting in 13% increase in gross revenue on YOY basis during 9MFY18 to PKR 96mln (9MFY17: PKR 85mln).
- Personnel costs exhibited a slight increase on a YoY basis, however provisioning reversal of PKR 4mln provided some support to Modaraba to post a PBT during 9MFY18 of PKR 14mln (9MFY17: PKR 19mln)
- During 9MFY18, Modaraba maintained a lower profit on a YOY basis with the bottom-line of PKR 16mln (9MFY17: PKR 26mln).
- Going forward, the management intends to: i) grow its financing portfolio targeting medium-sized customers and commercial vehicles through diminishing musharkha majorly, 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 1,173mln availed till Mar-18 (approved limit PKR 1,405mln).
- Another available financing facility of PKR 400mln by BOP, FPM has fully availed that facility by issuing CoMs.
- FPM carries a leveraged structure - the total debt/equity ratio stands at 8.3x in 9MFY18 (FY17: 8x; FY16: 6x).
- Further support from sponsors is expected through further borrowing and issuance of CoMs.



First Punjab Modaraba

BALANCE SHEET	31-Mar-18	31-Dec-17	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15
	9MFY18	1HFY18	3MFY18	FY17	FY16	FY15
Assets						
Finances						
1. Morabaha	48	45	44	44	76	131
2. Musharaka	825	791	792	850	410	70
3. Ijarah	149	149	147	160	180	140
Other Earning Assets	66	94	66	71	35	79
Other Non-Earning Assets	204	200	169	163	117	154
Non-Performing Finances	1,085	1,085	1,085	1,059	1,092	1,139
Less: Provision for Doubtful Debts	(378)	(378)	(378)	(378)	(383)	(407)
Net Non Performing Finances	707	707	707	681	709	731
Less: Suspended Income	(92)	(92)	(92)	(95)	(100)	(100)
Total Assets	1,907	1,894	1,834	1,874	1,427	1,206
Liabilities						
Funding						
1. Certificate of Musharaka	400	400	400	400	100	100
2. Morabaha	-	-	-	-	-	-
3. Musharaka	1,190	1,170	1,080	1,118	969	746
4. Security Deposits	100	99	112	119	141	143
Other Liabilities	26	40	41	45	36	45
Equity						
Total Equity	191	186	196	192	177	123
Total Liabilities & Equity	1,907	1,894	1,830	1,874	1,422	1,158
INCOME STATEMENT						
Gross Revenue	96	66	31	121	73	49
Financail Charges	(68)	(45)	(23)	(80)	(58)	(63)
Other Income	6	3	2	10	5	159
Operating Expenses	(24)	(16)	(7)	(29)	(22)	(19)
Pre-Provision Operating Profit/(Loss)	10	9	3	22	(2)	126
Provisions for Doubtful Debts	4	1	-	5	25	(23)
Management Fee	-	-	-	(3)	(2)	(4)
Profit Before Taxes	14	9	3	24	21	98
Net Income	16	11	5	28	28	95
Ratio Analysis						
Profitability Ratios						
ROA	1.1%	1.2%	1.0%	1.7%	2.1%	7.5%
Cost-to-Total Net Revenue	70.4%	64.8%	73.0%	57.3%	111.4%	13.4%
Capital Adequacy						
Equity / Total Assets	10.0%	9.8%	10.7%	10.2%	12.4%	10.2%
Funding & Liquidity						
Short Term Funding/Total Funding	26.3%	26.7%	28.2%	27.6%	14.1%	19.7%
Loan Loss Coverage						
Impaired Lending/Gross Finances	51.5%	52.4%	52.4%	50.1%	62.1%	77.0%
Net Impaired Lending/ Equity (%)	3.70	3.81	3.60	3.55	4.01	5.92

First Punjab Modaraba

Jun-18

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) 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)] Explanation: for the purpose of 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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- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) 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 fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (15) PACRA ensures that the rating assigned to an entity or instrument is 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 | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates 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 | 18-(c)
- (21) 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 | 18-(d)

Probability of Default

(22) 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 | Chapter III | 14-(f-VII)

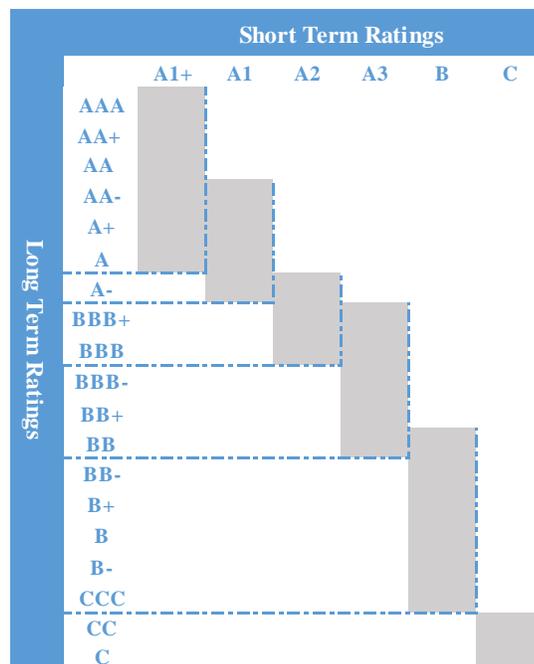
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Credit Rating Scale & Definitions

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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’.

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

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, the 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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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