



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
20-Sep-2023	A-	A2	Stable	Maintain	-
20-Sep-2022	A-	A2	Stable	Maintain	-
24-Sep-2021	A-	A2	Stable	Maintain	-
25-Sep-2020	A-	A2	Stable	Maintain	-
27-Sep-2019	A-	A2	Stable	Maintain	-
29-Mar-2019	A-	A2	Stable	Maintain	-
04-Dec-2018	A-	A2	Stable	Maintain	-
30-Jun-2018	A-	A2	Stable	Maintain	-
30-Dec-2017	A-	A2	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect the Modaraba's association with The Bank of Punjab (BoP) (Rated AA+ by PACRA). Income level has improved supported by high interest rates; however, overall growth is consistently deteriorating due to high finance cost. The Modaraba upholds its earning assets, particularly in the lending sector with a significant focus on vehicle financing. However, the impact of accumulated losses remains a pressing concern, necessitating ongoing efforts to strengthen the equity base, currently stands at PKR 1.2mln as of Mar-23 (as of Dec-22 : PKR 0.05mln), through an additional investment. Through a support letter, BoP has shared a formal commitment to provide subordinated loan of PKR 500mln. The plan is expected to be implemented within due time. Going forward, a comprehensive plan for the Modaraba to tap into new products is under development, and is expected to be shared and approved by BoP's Board in near future. Yet the modalities and materialization of the plan remains unclear. Support from sponsor is vital. Considerably weak financial position and the ongoing economic challenges requires vigilance.

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

<b>Name of Rated Entity</b>	First Punjab Modaraba
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Non-Banking Finance Companies Rating(Jun-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Modaraba & NBFCs(Apr-23)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504



## 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 vehicles financing. Ijarah focuses on plant & machinery, vehicles and Home Decor Scheme. Morabaha targets raw material (working capital) financing 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 remaining ~40% is held by the general public.

**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 Govt. of Punjab is 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 furnished a support letter from its Board. As of CY22, the BOP’s total assets amount to PKR 1,482 billion and is assigned a long-term rating of “AA+” as assigned by PACRA.

## Governance

**Board Structure** Board of Directors (BoD) comprises seven members including CEO. Except for the CEO, an Executive Director, the Board hosts four Non-Executive Directors and two Independent Directors.

**Members’ Profile** Mr. Nadeem Amir, the Chairman, has a diversified experience of handling financial affairs in different capacities with over 22 years post qualification experience. Presently, he is serving the BOP as CFO.

**Board Effectiveness** During CY22, six Board meetings were held. Majority of the Board members has attended all of the Board Committee meetings. Board meeting minutes are maintained properly. The Modaraba has established Audit Committee, Human Resource Committee, and Risk Management Committee..

**Financial Transparency** A.F. Ferguson & Co, external auditor of the Modaraba have expressed an unqualified opinion on review of the financial statements for CY22. The auditor is also present on the SBP Panel of auditors.

## Management

**Organizational Structure** The Modaraba’s operations are segregated and managed through 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. Aamir Malik, the CEO, has more than three decades of experience, mainly with BoP. He has diversified experience of handling banking affairs covering Credit, Branch Banking, Foreign Trade, Recovery and SAM in different Management positions. Mr. Mudassar Kaiser Pal, the CFO, has been associated with the Modaraba for more than 15 years. The team comprises a balanced mix of 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 assure adherence of policies & procedures, management committees are working effectively.

**MIS** The Modaraba has acquired an online, centralized financial Information System (FIS) Solution that has been custom developed in client / server application architecture that will help in managing the business processes easily and efficiently.

**Risk Management Framework** The Modaraba has implemented Obligor Risk Ratings module (ORRs) for prudent credit decisions. This solution make the Modaraba’s system real-time, user-friendly, with robust security.

## Business Risk

**Industry Dynamics** The business environment in the country remains challenging; While measures taken by the Government for stabilization has impacted the overall business sentiments. The transportation sector has also been under strain and disbursements in the vehicle business was 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** In terms of assets, the Modaraba occupies a stable footing.

**Revenues** Gross Revenue of PKR 148mIn was generated during CY22 (CY21: PKR 78mIn). Major contribution is from diminishing Musharka( ~65%), ~27% from Ijarah and ~8% from Morabaha. During 1QCY23, the Modaraba posted a growth in revenue and stood at PKR 65mIn (1QCY22: PKR 38mIn).

**Performance** The Modaraba reported a net loss of PKR 87mIn during CY22 due to drying up of revenue streams (CY21: net profit of PKR 11mIn). The operating loss before provision during CY22 is of PKR~78mIn (CY21: PKR 12mIn). This increase is due to high finance cost from PKR 55mIn to PKR 220mIn during CY22. The admin expenses increased from PKR 27mIn to PKR 66mIn. during 1QCY23, the Modaraba reported a net profit of PKR 1mIn (1QCY22: PKR 3mIn). Admin expenses have decreased from PKR 15mIn to PKR 13mIn during 1QCY23; however, the finance cost grew by~83% due to major increase in financial charges on redeemable capital.

**Sustainability** The Modaraba intends to continue with its cautious approach while targeting quality customers, going forward. The Modaraba has invested into 6 projects and 5 of them are approved from FBR under FBR Amnesty scheme. The Modaraba has entered into a joint venture with DHA to build & maintain roads, parkings etc.

## Financial Risk

**Credit Risk** The Modaraba’s financing book is dominated by Musharka. Repayment of long term Musharka finance has been done. Short-term funding as of CY22 is PKR~1,951mIn (CY21: PKR~1,861mIn) including redeemable capital. 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 are held only with reputable banks with high quality credit worthiness. Credit risk is highest in Aviation and Transport sector as of CY22 i.e.,~33%.

**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, therefore a change in interest rate at the end of the reporting year would not affect profit or loss.

**Liquidity And Funding** As of CY22, the gross finances to funding ratio was almost stable at ~86% (CY21: 88%). Liquid assets decreased to PKR 27mIn as of CY22 (CY21: PKR 135mIn). Liquid assets to deposits ratio and borrowing has decreased from ~7.3% to ~1.4% (YoY). The proceeds from disposal of Ijarah assets has increased by ~19% (CY22: PKR 32mIn, CY21: PKR 27mIn). Dividend income of PKR 4mIn is also received as of CY22. BOP has affirmed its commitment to continue offering financial assistance in meeting the necessary capital and liquidity demands.

**Capitalization** The equity of the Modaraba has suffered decrease (CY22: PKR 0.05mIn, CY21: PKR 87mIn). The paid-up capital stand at PKR 340mIn as of CY22). The Modaraba is struggling to cover the expenses, which has impacted the equity base. The Modaraba has a market capitalization of PKR~80mIn as of CY22 (CY21: PKR~95mIn). The equity has settled at PKR 1mIn as of 1QCY23 (1QCY22: PKR 158mIn). Through a support letter, BoP has shared a formal commitment to provide subordinated loan of PKR 500mIn. The plan is expected to be implemented within due time.



**First Punjab Modaraba**  
**Public Listed Company**

Mar-23	Dec-22	Mar-22	Dec-21
3M	12M	3M	12M

**A BALANCE SHEET**

1 Total Finance-net	1,552	1,673	1,725	1,630
2 Investments	138	130	119	116
3 Other Earning Assets	25	5	102	102
4 Non-Earning Assets	356	232	231	242
5 Non-Performing Finances-net	-	-	16	-
<b>Total Assets</b>	<b>2,071</b>	<b>2,041</b>	<b>2,192</b>	<b>2,090</b>
6 Funding	1,956	1,951	1,881	1,861
7 Other Liabilities	114	90	152	143
<b>Total Liabilities</b>	<b>2,070</b>	<b>2,041</b>	<b>2,033</b>	<b>2,004</b>
<b>Equity</b>	<b>1</b>	<b>0</b>	<b>159</b>	<b>87</b>

**B INCOME STATEMENT**

1 Mark Up Earned	65	148	38	78
2 Mark Up Expensed	(73)	(221)	(40)	(55)
3 Non Mark Up Income	13	61	19	6
<b>Total Income</b>	<b>5</b>	<b>(11)</b>	<b>17</b>	<b>29</b>
4 Non-Mark Up Expenses	(14)	(66)	(13)	(27)
5 Provisions/Write offs/Reversals	10	(3)	(0)	10
<b>Pre-Tax Profit</b>	<b>1</b>	<b>(80)</b>	<b>4</b>	<b>13</b>
6 Taxes	(0)	(6)	(1)	(2)
<b>Profit After Tax</b>	<b>1</b>	<b>(87)</b>	<b>3</b>	<b>11</b>

**C RATIO ANALYSIS**

**1 PERFORMANCE**

a Non-Mark Up Expenses / Total Income	258.0%	-585.3%	75.8%	91.5%
b ROE	733.1%	-199.8%	10.7%	12.3%

**2 CREDIT RISK**

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	79.3%	85.8%	92.5%	87.6%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A	0.0%	N/A

**3 FUNDING & LIQUIDITY**

a Liquid Assets / Funding	3.1%	1.4%	7.2%	7.3%
b Borrowings from Banks and Other Financial Institutes / Funding	99.0%	99.0%	98.4%	97.7%

**4 MARKET RISK**

a Investments / Equity	11915.3%	257488.9%	75.2%	133.9%
b (Equity Investments + Related Party) / Equity	6621.8%	151674.4%	48.2%	88.3%

**5 CAPITALIZATION**

a Equity / Total Assets (D+E+F)	0.1%	0.0%	7.2%	4.1%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	8762.1%	-99.9%	15.1%	N/A

### 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 Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	
BB	<b>Moderate risk.</b> 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.
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	
CC	<b>Very high credit risk.</b> 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.



\*The correlation shown is indicative and, in certain cases, may not hold.

**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 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.

**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) 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.

**Harmonization** 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.

**Note.** This scale is applicable to the following methodology(s):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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### **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

### **Restrictions**

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

### **Conduct of Business**

(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 | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(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)

### **Independence & Conflict of interest**

(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)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(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)

(17) PACRA has established policies and procedure 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)

### **Monitoring and review**

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(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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