



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-2024	A-	A2	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

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, primarily focuses on vehicle financing. Income levels have improved, supported by high interest rates. However, overall 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 and hindering its business generation capacity. The sponsor - Bank of Punjab (BoP) - has provided long term redeemable capital of PKR 1.5bln, lately locked at a subsidized rate of 18.61%. This along with a recent injection of subordinated loan of PKR 500mln, which has improved overall liquidity, enhances the business generation capacity by increasing per-party limits. Despite this support, challenges in maintaining a healthy equity position persist. Leveraging the sponsor's support, the Modaraba has made strategic deposits with banks to generate supplementary income and bolster overall performance. The Modaraba is adhering to a comprehensive business plan approved by Modaraba's Board, aiming to revamp its overall operational performance by CY27. However, the modalities and materialization of the plan requires clarity. Support from the sponsor remains pivotal. Considerably weak financial position financial profile and the ongoing challenges requires vigilance.

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.

Disclosure

Name of Rated Entity	First Punjab Modaraba
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Rating Modifiers(Apr-24),Methodology Non-Banking Finance Companies Rating(Jun-24),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study Non-Banking Finance Companies(Apr-24)
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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 Musharikhah. Musharikhah 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 furnished a support letter from its Board. As of CY23, the BoP’s total assets amount to PKR 2,216bln and is assigned a long-term rating of “AA+” by PACRA.

Governance

Board Structure The Board of Directors (BoD) comprises seven members, including the CEO. Apart from the CEO, who is an Executive Director, the Board includes four Non-Executive Directors and two Independent Directors.

Members’ Profile Mr. Nadeem Amir, the Chairman, has diversified experience in handling financial affairs in different capacities with over 23 years post qualification experience. Presently, he is serving the BoP as CFO.

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. 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 CY23. 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. Mudassar Kaiser Pal was appointed as the Acting CEO on 30-Apr-24, as noted in the PSX notice published on the same date, following the expiration of Mr. Aamir Malik’s term. Mr. Mudassar has been with the Modaraba for over 15 years, previously serving as the CFO. 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 assure adherence of policies & procedures, management committees are working effectively.

MIS The Modaraba has acquired an online, centralized AI-Nizam 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 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 occupies a stable footing in the industry.

Revenues During CY23 the Modaraba advances income reflected an uptake of ~62% reporting at PKR 244mln (CY22: PKR 151mln). Diminishing musharikhah financing remained top contributor with generating ~80%. During 6MCY24 the advances income reported at PKR 153mln reflecting an uptake of ~18% (6MCY23: PKR 130mln).

Performance During CY23, the Modaraba’s net markup income reported a loss of PKR 51mln (CY22: Loss of PKR 40mln), with the increased loss attributed to higher markup expenses during the period. However, during 6MCY24, the Modaraba reported a net markup income of PKR 25mln (6MCY23: loss of PKR 16mln). The overall performance deteriorated due to provisions made during CY23, but net losses remained nearly stagnant at PKR 112mln (CY22: PKR 88mln) due to deferred tax adjustments. During 6MCY24, the Modaraba reported a net income of PKR 15mln (6MCY23: loss of PKR 11mln).

Sustainability Going forward, the Modaraba is focusing on its core business operations with a cautious approach, targeting high-quality customers to drive profitability through these operations. Additionally, the Modaraba is divesting certain liquid investments to enhance its lending portfolio.

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 are held only with reputable banks with high-quality creditworthiness. Credit risk is highest in the Aviation and Transport sector.

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 The total funding of the Modaraba grew by ~7% to PKR 2,078mln during CY23 (CY22: PKR 1,936mln) and remained stagnant during 6MCY24 reporting at PKR 2,035mln. Funding is solely from the sponsor in the form of deposits. During CY23, the sponsor provided an additional subordinated loan of PKR 500mln for three years and extended the certificates from short-term to long-term to support working capital needs. BoP has affirmed its commitment to continuing financial assistance. Liquid assets rose significantly to PKR 234mln during CY23 (CY22: PKR 27mln) due to new bank deposits but declined by ~68% in 6MCY24 due to a decrease in bank deposits, which impacted the liquid assets/funding coverage ratio.

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 during the period. During CY23 inclusive of subordinated loan the equity base stood at PKR 378mln (CY22: negative PKR 13mln). As at 6MCY24, the equity base improved, reporting PKR 393mln.



PKR mln

First Punjab Modaraba
Public Listed Company

	Jun-24	Dec-23	Dec-22	Dec-21
	6M	12M	12M	6M

A BALANCE SHEET

1 Total Finance-net	1,733	1,625	1,676	1,701
2 Investments	50	50	130	116
3 Other Earning Assets	21	223	5	102
4 Non-Earning Assets	343	293	221	242
5 Non-Performing Finances-net	-	-	-	-
Total Assets	2,147	2,190	2,031	2,161
6 Funding	1,535	1,578	1,936	1,856
7 Other Liabilities	219	234	108	148
Total Liabilities	1,754	1,812	2,044	2,004
Equity	393	378	(13)	155

B INCOME STATEMENT

1 Mark Up Earned	210	308	181	78
2 Mark Up Expensed	(184)	(358)	(221)	(55)
3 Non Mark Up Income	18	24	31	6
Total Income	44	(27)	(9)	29
4 Non-Mark Up Expenses	(38)	(80)	(70)	(27)
5 Provisions/Write offs/Reversals	8	(46)	(3)	10
Pre-Tax Profit	15	(153)	(81)	13
6 Taxes	0	42	(6)	(2)
Profit After Tax	15	(112)	(88)	11

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	85.9%	-295.5%	-758.2%	91.5%
b ROE	7.6%	-61.0%	-122.6%	6.8%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	112.9%	103.0%	86.6%	91.6%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A	N/A	N/A

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	2.6%	14.8%	1.4%	7.3%
b Borrowings from Banks and Other Financial Institutions / Funding	0.0%	0.0%	0.0%	0.0%

4 MARKET RISK

a Investments / Equity	12.7%	13.1%	-1036.8%	74.7%
b (Equity Investments + Related Party) / Equity	0.0%	0.0%	-610.7%	49.2%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	18.3%	17.3%	-0.6%	7.2%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	7.8%	-890.6%	-56.4%	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	Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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.
B	
B-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Short-term Rating	
Scale	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.*

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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	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 Companies Rating

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(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)

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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)
- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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