

First Paramount Modaraba

Chairman: Mian Tanveer Ahmed Magoon; Chief Executive: Mr. Syed Wajih Hassan

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Category	Latest	Previous
Entity	BBB/A-3 Dec 26, '14	BBB/A-3 Dec 31, '12
Outlook	Positive Dec 26, '14	Stable Dec 31, '12

Rating Rationale

The assigned ratings incorporate conservative risk profile of First Paramount Modaraba (FPM) with low leverage and sizeable liquid assets in relation to deposits and borrowings. Leverage indicators have historically remained below 1(x) and are projected to continue to remain below 1(x) over the foreseeable horizon. The conservative capital structure of the Modaraba is a key rating consideration and change in strategy in this regard may trigger rating review.

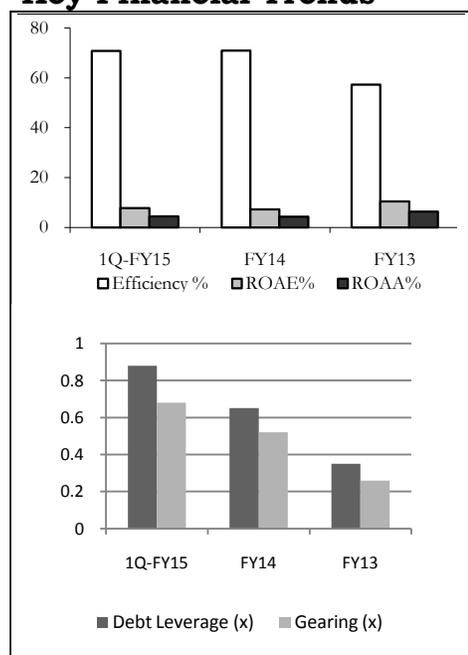
With growth in Certificate of Musharaka (CoMs), asset base witnessed sizeable growth during FY14. Financing portfolio represents around 60% of the total asset base with cash at bank and operating fixed assets comprising other major components of FPM's asset base. Murabaha financing continues to be the primary financing mode; the management has also ventured into a number of Musharaka projects whereby FPM invests a portion of the capital for the projects and utilizes expertise of third parties. Results of these projects have varied, with management planning to exit from projects where returns have been lower than projected. Concentration in the Murabaha portfolio is on the higher side with top 10 clients representing 37% of the total Murabaha portfolio, exposing FPM to asset quality pressures in case of impairment in large financing. Going forward, exposure to Musharaka projects is projected to remain around one-fifth of the overall financing portfolio with Murabaha financing continuing to dominate the financing mix.

FPM only mobilizes funds through Certificate of Musharaka (CoMs), cost of which compares favorably to secondary market borrowings. Cost on CoMs varies from 8.75% to 10.75% depending on the tenor of the instrument. Top 10 CoM holders represent 45% of total funds raised through CoMs at end-1QFY15. While concentration in CoMs is notable, liquidity profile is supported by sizeable liquid assets carried on balance sheet.

Profitability declined for a second consecutive year in FY14. As per management, this is on account of investment in Musharaka projects, returns from which are expected to emanate in future periods. Management has projected net profit of Rs. 19.2m for full year FY15 with net profit of Rs. 3.4m for 1QFY15 (1QFY14: Rs. 2.8m).

Net equity stood at Rs. 179.5m at end-June'14. Capitalization levels are planned to be enhanced through rights issue every year for the next four years and internal profit generation. Equity levels are projected to cross Rs. 400m by end-FY18. The modaraba's ability to maintain portfolio quality indicators and improve profitability while maintaining leverage within prudent limits will continue to be monitored by JCR-VIS.

Key Financial Trends



(Rs. million)	1Q-FY15	FY14	FY13
Asset base*	322.8	296.8	237.0
Borrowings	117.2	93.9	46.0
Equity	172.0	179.5	175.7
Revenue	12.9	50.2	41.5
Net Profit	3.4	12.4	16.4
Gearing (x)	0.68	0.52	0.26
Debt Leverage (x)	0.88	0.65	0.35
ROAE(%)	7.8	7.3	10.4
ROAA(%)	4.4	4.3	6.3

*Net of deferred income

Overview of the Institution

First Paramount Modaraba (FPM) was formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed there under and is managed by Paramount Investments Limited (PIL). The management company is incorporated in Pakistan under the Companies Ordinance, 1984 and registered with the Registrar of Modaraba Companies and Modarabas. FPM is listed on the Karachi and Islamabad stock exchanges. External auditors of FPM are M/s KPMG Taseer Hadi & Company JCR-VIS