



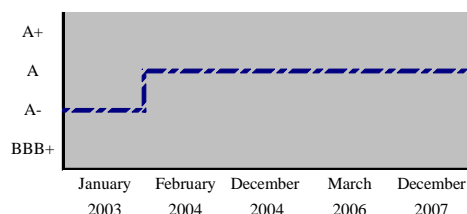
First Punjab Modaraba (FPM)

Ratings (January 2008)

First Punjab Modaraba

Entity	New	Previous
Long Term	A	A
Short Term	A1	A1
Outlook	-	Positive

L.T. Entity Rating History



FINANCIAL DATA

PKR (mln)

	30-Jun-07	30-Jun-06
Total Assets	1,798.1	1738.1
Equity	463.9	489.8
Profit after Tax	26.2	65.2
ROE %	1.4	4.2
ROA %	5.4	13.5
Equity/Assets %	26.1	28.4

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ASSESSMENT

FPM's ratings reflect its low leveraged capital structure engendering strong risk absorption capacity. Although, in the recent past, the Modaraba experienced deterioration in its performance and asset quality, the trend has been arrested subsequent to induction of new Chief Executive Officer. The Modaraba, while strengthening its risk management framework, is targeting volumetric expansion to manage the impact of competitive pressure on its performance. Meanwhile, the ratings recognize Modaraba's association with the Bank of Punjab as a key factor.

FPM's profitability was under pressure during FY07, wherein continuing pressure on spreads led to a significant decline in net revenue. The bottom line was also dampened by the higher provisioning due to increased NPLs. Moreover, subsequent to induction of new CEO, the Modaraba mainly focused on revamping its risk management framework along with organizational structure. As a consequence, fresh credit disbursements were also curtailed down significantly leading to a largely YoY maintained total financing portfolio. All these factors led to subdued performance during the period.

The organizational restructuring done towards the end of FY07 has started yielding benefits as reflected by improved performance during 1QFY08. In addition to achieving volume growth during this period, net interest revenue of the Modaraba also benefited from improved spread, an outcome of re-profiling of funding lines.

Going forward, the main focus of the Modaraba is to continue its aggressive growth stance as pursued in 1QFY08. To achieve the targeted volume expansion, the Modaraba intends to provide financing facilities mainly to SME segment and non-textile/corporate entities. Meanwhile, FPM also plans to extend its operations to Karachi this year. Meanwhile, the management intends to diversify its operations. In this regard, FPM has started offering trade services to its customers in arrangement with BOP. Moreover, the Modaraba has obtained approvals to start a brokerage house, and is in the process of designing respective strategy.

The Modaraba's investment portfolio predominantly comprises units of different mutual funds, constituting 90% of the total portfolio at end-September-07. Although these units are providing reasonable dividend income, the Modaraba had a revaluation deficit of more than PKR 17mln at end-1QFY08. The management as a policy intends to keep its exposure to stock market at a moderate level and that too through mutual funds as against direct investment.

Asset quality of FPM deteriorated during FY07 mainly on account of infection of a textile related exposure. However, net impaired leading due to significant provisioning remained at a moderate level. The Modaraba is aggressively pursuing recoveries and settlement against chronic classified cases and any success in this regard would add towards the bottom line.

Meanwhile, the management is continuing with efforts for strengthening the overall risk management framework. The re-alignment of both credit approval and disbursement processes, ensuring independence, has further improved the risk management system. Nevertheless, credit concentration remains a concern, with the top ten exposures comprising more than 60% of the total portfolio. Similarly, the sector concentration is also high, though declining, as the textile sector constitutes around 30% of the total finance portfolio. However, both client and sectoral concentrations are likely to decrease with targeted volume expansion, going forward. Moreover, the largely sustained risk absorption capacity provides reasonable comfort against potential risk.

The Modaraba is not expected to face funding constraints for future growth owing to patronage of BoP. Meanwhile, the management is also diversifying its funding base by arranging funding lines with other financial institutions. Going forward, the management intends to issue a long-term Islamic bond of around PKR 600mln. The management of the Modaraba intends to maintain FPM's conservative capital structure and is contemplating a right issue in the near-term to keep its gearing within acceptable limits while pursuing volume growth.

KEY RATING DRIVERS

The ratings are dependent on the management's ability to sustain the recent performance trend notably - volume expansion and improving spreads - amidst increasing competition in the financial sector. Meanwhile, any material deterioration in the Modaraba's asset quality, in turn, weakening its risk absorption capacity could have negative implications for its ratings.

BACKGROUND

Established in 1992, FPM is a perpetual, multi-purpose Modaraba, listed on all three bourses in the country. It is primarily engaged in extending Islamic financial services including morabaha and lease financing and operates in all economic center of entire Punjab.

The management company of FPM, Punjab Modaraba Services (Pvt.) Ltd, holds around 39% stake in the Modaraba and is a wholly owned subsidiary of a large commercial bank, The Bank of Punjab (BoP). The Government of Punjab holds majority stake in BOP. The board of the management company comprises five directors; all are nominees of the BoP. Mr. Fawzi Khawaja, CEO of FPM, joined the Modaraba in early 2007 and possesses over 28 years of experience in the financial sector.