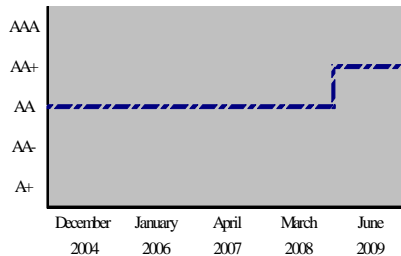


The Pakistan Credit Rating Agency Limited
RATINGS (JUNE 2009)
FIRST HABIB MODARABA (FHM)

ENTITY	NEW	PREVIOUS
Long Term	AA+	AA
Short Term	A1+	A1+


FINANCIAL DATA
PKR (mln)

	31-Mar-09*	30-Jun-08
Total Assets	3,504.6	4,025.6
Equity	1,886.4	1,938.8
Profit after Tax	159.3	268.8
ROA %	5.6	5.9
ROE %	11.1	18.2
Equity /Assets %	53.8	48.2

** Unaudited*
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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect FHM's very strong risk absorption capacity emanating from a sound equity base with very low leveraging. Meanwhile, FHM's established risk management framework has enabled the Modaraba to sustain its very good asset quality. In addition, the management, while following a prudent approach, is working to diversify its *Ijarah* portfolio, by taping hitherto unexplored potential areas of business. Although the Modaraba's growth has lately come under pressure, this is the result of its risk-averse business strategy. Meanwhile, the Modaraba's association with House of Habib remains a key factor.
- The ratings are dependent on the management's strategy to successfully sustain its leading position through sound profitability and good asset quality. Meanwhile, the Modaraba's continuing competitiveness in the wake of rising socio-political and economic challenges ahead remains critical for the ratings.

ASSESSMENT

- The Modaraba's *Ijarah* portfolio comprises plant & machinery (55.5%), vehicles (44.4%), and furniture & fixture (0.1%). During FY08, the vehicle segment paced out its proportion mainly at the expense of plant & machinery segment. In terms of sectoral analysis, FHM's portfolio underwent a significant change – services sector emerged as a significant contributor with reduction in the portion of textile and financial institutions.
- During FY08, FHM's gross revenue witnessed a considerable increase, attributable to higher average *Ijarah* portfolio on YoY basis. Financial charges declined during the year, owing to significant reduction in borrowing after fresh equity injection. Meanwhile, dividend income and hefty capital gains on equity investments contributed substantially towards the profitability. Although FHM's operating expenses experienced an increase, its cost to total net revenue further improved. This helped the Modaraba report higher ROE on YoY basis. During 3QFY09, despite lower disbursements in *Ijarah* portfolio, FHM's gross revenue improved on YoY basis mainly attributable to the rising interest rate in the country. However, due to smaller contribution of investment income towards profitability, profitability dropped significantly on comparative basis.

- Going forward, FHM intends to maintain a conservative stance on business growth. This means not to expand the *Ijarah* portfolio at the expense of asset quality. However, FHM, to maintain its revenue stream, plans to diversify into other segments including generators etc. The Modaraba will add the facility of 'maintenance' to its business deals for attracting more quality customers. The currently high interest rates are also expected to help FHM's profitability. Although stock market operations are likely to continue contributing towards FHM's profitability, its extent is not expected to be much significant.
- FHM has an efficient risk management framework and well developed credit evaluation policies. The credit risk is also minimized due to overall diversified lending portfolio. This has helped FHM to maintain its infection-free portfolio over the years.

- FHM has a sizeable and quality equity investment portfolio, constituting 23% of its total asset base as at end-Mar09. Despite the recent slump in the stock market, the Modaraba had unrealized gain of PKR 656mln available on this portfolio at end-Mar09.

- FHM has a very strong capital structure supplemented by the 100% right issue last year (PKR 756mln). FHM gets funding through diversified sources mainly in the form of *Musharika/Murabaha*. The *Murabaha* source of funding represents facilities obtained from financial institutions while *Musharika* financing is acquired from individuals and corporates through its certificates of *Musharika* (COM).

PROFILE

- FHM, a perpetual multipurpose modaraba and listed on all the bourses of the country, was established in 1985. It is engaged primarily in the leasing business and is managed by Habib Modaraba Management Company (Private) Limited. FHM is associated with House of Habib (HOH); this association is due to direct shareholding of Habib family members in the Modaraba Management Company, which owns 55% of certificates of the Modaraba. Originating back to mid-nineteenth century, HOH, today, is one of the largest business groups of Pakistan with presence in most sectors of the economy, including the financial sector. HOH currently owns and operates a mid sized bank of the country - Habib Metropolitan Bank Limited.
- The board of directors of the Modaraba Management Company, comprising five members including the Managing Director (MD) contains experienced individuals mostly drawn from the financial sector. The MD, Mr. Muhammad Shoab, an MBA, is also the Chairman of Modaraba Association of Pakistan. He has work experience of over two decades in the modaraba sector and has been associated with the Modaraba since its inception.