



The Pakistan Credit Rating Agency Limited

FIRST HABIB MODARABA RATING REPORT

	NEW [DEC-17]	PREVIOUS [JUN-17]
Long-Term	AA+	AA+
Short-Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

Profile & Ownership

- First Habib Modaraba (FHM) was established in 1985.
- Perpetual, multipurpose Modaraba, listed on Pakistan Stock Exchange, with a network of one head office and three branches.
- Primarily engaged in financing through Ijarah and Diminishing Musharaka.
- Habib Metropolitan Modaraba Management Company (Pvt.) Limited is the new Management Company of Modaraba, holds 10% ownership stake in the Modaraba.
- Habib Management (Private) Limited, the previous management company, holds ~39% ownership stake in the Modaraba.

Governance & Management

- FHM has a four members Board. One position is currently vacant. Except the CEO, all board members are non-executive.
- Mr. Wazir Mumtaz Ahmed, a senior banker by profession, is the chairman of the board. He has possesses over 25 years of diversified experience.
- Mr. Muhammad Shoaib Ibrahim is the CEO, Ex-Chairman of NBFi and Modaraba Association, is associated with the Modaraba since its inception. He is assisted by experienced team members.

Risk management

- Rigorous credit approval and efficient monitoring by all heads through risk rating models and in-house developed ERP system. Modaraba is in process of moving its systems to dot net [.NET].
- Asset quality is fully maintained throughout the years. As NPL's are fully provided as Loan Loss Provisions / Impaired Lending (1QFY18: 100%; FY17: 100% FY16: 100%).
- FHM portfolio is dominated by Diminishing Musharakah (~64%) followed by Ijarah (~36%).
- Moderate market risk exposure. Investment portfolio continues to be dominated by GoP ijarah sukuks (FY17: 79%; FY16: 80%; FY15: 82%; FY14: 85%). Furthermore, the Modaraba also has small investment book of listed stock, comprising 8% of FHM's equity.

Performance

- During FY17, earning assets increase by ~17% specially on account of diminishing musharaka and government securities led the net interest revenue increase slightly (FY17: PKR 389mln; FY16: PKR 380mln).
- Benefiting from other income, owing to dividend income and capital gains, FHM bottom-line stood at PKR 305mln (FY16: PKR 298mln; FY15: PKR 307mln).
- Tax paid of PKR 10mln during FY17, FHM's net income stands at PKR 295mln (FY16; 298mln).
- During 1QFY18, increased earning assets (~15% YOY) owing to diminishing musharaka resulted a net interest revenue of PKR 380mln.
- With other operating income of PKR 5mln during 1QFY18 (1QFY17: PKR 2mln), and a slight increase in expenses on YOY, FHM net income slightly decreased to PKR 82mln.
- Going forward, the management intends to go for CPEC related projects especially vehicle financing and intend to enhance its customer base by another Modaraba (Habib Metro Modaraba).

Capital and Funding

- Certificates of Musharika (CoM) - a key source of funding. Financial Institutions dominate the CoM mix (1QFY18: 40%; FY17: 58%; FY16: 38%) followed by Corporates (1QFY18: 41%; FY17: 21%; FY16: 24%) Individuals (1QFY18: 8%; FY16: 9%; FY16: 15%); and Trusts (1QFY18: 11%; FY17: 12%; FY16: 23%).
- Modaraba's liquidity is well managed by keeping good amount in GOP ijarah sukuk (FY17: ~79%).
- Capital structure shows an inclination towards leveraging with Debt / equity ratio; (1QFY18: 1.33x; FY17; 1.35x; FY16:1.09x).

RATING RATIONALE

The ratings reflect FHM's strong business profile emanating from healthy asset base, sound asset quality and sustained profitability. The asset yield has declined; FHM has managed to cushion its impact by rationalizing cost of funding- hence slight dilution in spreads. Liquidity is being well maintained by investing in government securities. FHM managed to sail through its devised strategy to beef-up its business volumes to maintain its bottom-line performance by maintaining its asset quality. FHM's capital provide strong support to the funding structure of the Modaraba, equally aided by COM's. Overall capital structure shows an inclination towards leveraging. Going forward, the management, while continuing with its growth strategy, intends to expand its outreach to other areas of the country, especially those close to CPEC related projects and more focus would be on vehicle financing. The ratings take into account good management quality and strong control environment and also reaching others customers through different business model.

KEY RATING DRIVERS

The ratings are dependent on the management's ability to sustain its competitive positioning while ensuring stable profitability. The ratings also depend upon keeping its financial profile intact. Any significant change in its risk profile may adversely impact the ratings.

INDUSTRY SNAPSHOT

- Industry comprises 25 Modarabas.
- Intense competition from established financial institutions (FIs) owing to small network and similar nature of products being offered by these FIs.
- High threat of new entrants owing to small capital investment
- SECP grants authorization to float two new Modaraba of PKR 800mln.

**First Habib Modaraba**

BALANCE SHEET	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15
	3MFY18	FY17	FY16	FY15
Assets				
Investments (Others)	282	279	205	180
Equity	282	279	205	180
Debt	-	-	-	-
Finances	6,969	6,733	5,777	4,801
Other Earning Assets	1,409	1,493	1,263	1,322
Net Non-Performing Advances	-	-	-	-
Total Non-Earning Assets	164	141	121	269
Total Assets	8,542	8,367	7,161	6,393
Liabilities				
COMs	4,079	3,914	3,051	2,360
Lease rentals received in advance	384	366	421	435
Other Liabilities	738	615	373	341
Equity				
Equity (including surplus on revaluation)	3,341	3,472	3,316	3,257
Total Liabilities & Equity	8,542	8,367	7,161	6,393

INCOME STATEMENT

Net Revenue	111	440	426	429
Other Operating Income/Loss	5	18	14	9
Total Revenue	111	440	426	429
Administrative and General Expenses	(15)	(44)	(41)	(40)
Pre-provision Profit	82	344	337	347
Provisions	-	-	-	-
Pre-tax Profit	82	305	298	307
Net Income	82	295	298	307

Ratio Analysis**Performance**

ROA	3.9%	3.8%	4.4%	6.9%
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Coverages

Liquid Assets / Total Funding	34.49%	48.87%	41.27%	62.40%
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Loan Loss Coverage

Impaired Lending / Gross Finances	0.1%	0.1%	0.1%	0.1%
Loan Loss Provisions / Impaired Lending	100.0%	100.0%	100.0%	100.0%

First Habib Modaraba

Dec-17

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CREDIT RATING SCALE & DEFINITIONS

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.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	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+	Good credit quality. Currently a low expectation of credit risk.	
BBB	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+	Moderate risk. Possibility of credit risk developing.	
BB	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+	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	Very high credit risk. Substantial credit risk	
CC	“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.	

<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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information</p>
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Name of Issuer
Sector
Type of Relationship

First Habib Modaraba
 Modaraba
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
30-Dec-17	AA+	A1+	Stable	-
23-Jun-17	AA+	A1+	Stable	-
30-Dec-16	AA+	A1+	Stable	-
14-Jan-16	AA+	A1+	RW	-
09-Sep-15	AA+	A1+	RW	-
15-Jan-15	AA+	A1+	Stable	-
08-Jan-14	AA+	A1+	Stable	-

Related Criteria and Research

Rating Methodology
 Sector Research

Non- Banking Finance Companies
 Modaraba & NBFCs | Mar-17

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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[Probability of Default \(PD\)](#)

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