



The Pakistan Credit Rating Agency Limited

Rating Report

First Habib Modaraba

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2018	AA+	A1+	Stable	Maintain	-
30-Dec-2017	AA+	A1+	Stable	Maintain	-
23-Jun-2017	AA+	A1+	Stable	Maintain	-
30-Dec-2016	AA+	A1+	Stable	Maintain	-
07-Jan-2016	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

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. Furthermore, overall profitability has also been maintained through enhancement of financing asset size. 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 provides strong support to the funding structure of the Modaraba, equally aided by Certificates of Musharika (CoM). 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.

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.

Disclosure

Name of Rated Entity	First Habib Modaraba
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Non-Banking Finance Companies(Jan-17)
Related Research	Sector Study Modaraba & NBFCs(Apr-18)
Rating Analysts	Jhangeer Hanif jhangeer@pacra.com +92-42-35869504

FIRST HABIB MODARABA (FHM) PROFILE	
Incorporated	1985
Profile	Perpetual, multipurpose Modaraba, listed on Pakistan Stock Exchange, with a network of one head office and three branches.
Legal Status	Listed
Head Office	Karachi

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> Industry comprises 28 Modarabas. During the year new two Modaraba were floated. Modaraba industry is facing 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

OWNERSHIP

- Habib Metropolitan Modaraba Management Company (Pvt.) Limited is the new Management Company of Modaraba, holds 10% 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 NBFIs 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 (3QFY18: 100%; FY17: 100% FY16: 100%).
- FHM portfolio is dominated by Diminishing Musharakah (~62%) followed by Ijarah (~38%).
- Moderate market risk exposure. Investment portfolio continues to be dominated by government securities - GoP ijarah sukuku (3QFY18: 79%; FY17: 79%; FY16: 80%; FY15: 82%). Furthermore, the Modaraba also has small investment book of listed stock, comprising 13% 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).
- Prior year taxation amounting to PKR 10mln has been recognized during FY17. FHM's net income stands at PKR 295mln (FY16: 298mln).
- During 3QFY18, increased earning assets (~10% 9M) owing to assets given on Ijarah and Investment in government securities resulted a net interest revenue of PKR 288mln.
- With other operating income of PKR 16mln during 3QFY18 (3QFY17: PKR 9mln), and a increase in expenses on YOY, FHM net income slightly decreased to PKR 221mln.
- 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 & FUNDING

- Certificates of Musharika (CoM) - a key source of funding. Financial Institutions dominate the CoM mix (FY17: 58%; FY16: 38%) followed by Corporates (FY17: 21%; FY16: 24%), Trusts (FY17: 12%; FY16: 23%) and Individuals (FY17: 9%; FY16: 15%); Modaraba's liquidity is well managed by keeping good amount in GOP ijarah sukuk (3QFY18: ~79%).
- Capital structure shows an inclination towards leveraging with Debt / equity ratio; (3QFY18: 1.58x; FY17: 1.35x; FY16:1.09x).

**First Habib Modaraba**

BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9M	FY17	FY16	FY15
Assets				
Investments (Others)	448	279	205	180
Equity	448	279	205	180
Debt	-	-	-	-
Finances	6,879	6,733	5,777	4,801
Other Earning Assets	2,199	1,493	1,263	1,322
Net Non-Performing Advances	-	-	-	-
Total Non-Earning Assets	168	141	121	269
Total Assets	9,247	8,367	7,161	6,393
Liabilities				
COMs	4,833	3,914	3,051	2,360
Lease rentals received in advance	397	366	421	435
Other Liabilities	537	615	373	341
Equity				
Equity (including surplus on revaluation)	3,480	3,472	3,316	3,257
Total Liabilities & Equity	9,247	8,367	7,161	6,393

INCOME STATEMENT

Net Revenue	288	389	380	399
Other Operating Income/Loss	16	18	14	9
Total Revenue	334	440	426	429
Administrative and General Expenses	(65)	(44)	(41)	(40)
Pre-provision Profit	226	344	337	347
Provisions	-	-	-	-
Pre-tax Profit	221	305	298	307
Net Income	221	295	298	307

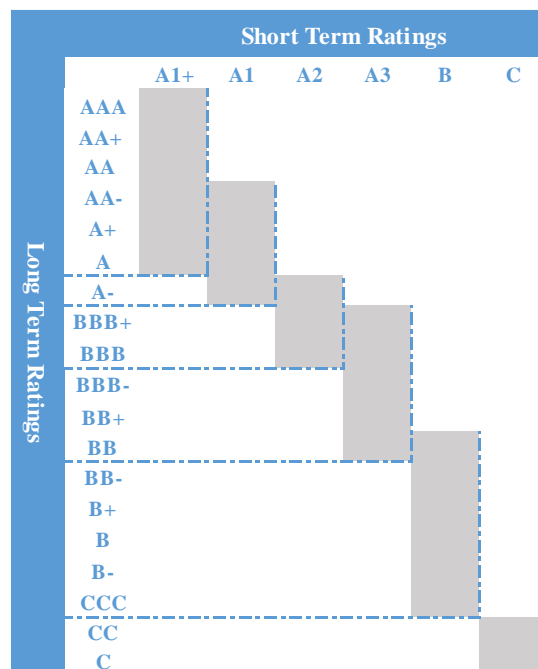
Ratio Analysis

Performance				
ROA	3.3% *	3.8%	4.4%	6.9%
Coverages				
Liquid Assets / Total Funding	44.73%	48.87%	41.27%	62.40%
Loan Loss Coverage				
Impaired Lending / Gross Finances	0.0%	0.0%	0.0%	0.0%
Loan Loss Provisions / Impaired Lending	100.0%	100.0%	N.A	N.A

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	A1+	The highest capacity for timely repayment.
AA+ AA 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.	A1	A strong capacity for timely repayment.
A+ A 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	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.		
D	Obligations are currently in default.		



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’.

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.

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.

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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(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

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- (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.
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- (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 | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)

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