



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
20-Sep-2024	AA+	A1+	Stable	Maintain	-
22-Sep-2023	AA+	A1+	Stable	Maintain	-
23-Sep-2022	AA+	A1+	Stable	Maintain	-
23-Sep-2021	AA+	A1+	Stable	Maintain	-
25-Sep-2020	AA+	A1+	Stable	Maintain	-
26-Sep-2019	AA+	A1+	Stable	Maintain	-
27-Mar-2019	AA+	A1+	Stable	Maintain	-
22-Nov-2018	AA+	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect First Habib Modaraba’s (‘the Modaraba’) sound business profile, emanating from a healthy asset base and asset quality, along with sustained profitability. Additional comfort is derived from the Modaraba’s affiliation with a renowned sponsoring entity, Habib Metropolitan Bank Ltd. The presence of industry veterans in the management structure, along with the implementation of a robust internal control system, is considered pivotal for the Modaraba's operational efficiency. The high policy rates supported the Modaraba’s topline, albeit with an impact on the finance costs. The Modaraba continues to maintain robust profitability. The Modaraba managed to sail through its devised strategy to support its business volumes so as to beef up its bottom-line. Going forward, the management aims to continue its growth strategy, supported by the revival in automobile demand and slight policy rate adjustments, while also diversifying its revenue streams through a varied product portfolio and different business models. The Modaraba’s capital provides strong support to the funding structure of the Modaraba, equally aided by Certificates of Musharaka (CoM). The strong capital adequacy ratio portrays Modaraba's strong capital position. Moreover, liquidity is being well maintained by investing in term deposits. The Modaraba is evolving its long-term strategic vision to remain competitive in the increasingly challenging financial landscape. The Modaraba sustains the highest ratings among the entire Modaraba sector across the country.

The ratings remain 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 Rating Modifiers(Apr-24),Methodology Non-Banking Finance Companies Rating(Jun-24),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study Non-Banking Finance Companies(Apr-24)
Rating Analysts	Muhammad Moaz muhammad.moaz@pacra.com +92-42-35869504

Profile

Structure First Habib Modaraba (“the Modaraba”) has been established as a Non-Banking Islamic Financial Institution. The Modaraba is listed on the Pakistan Stock Exchange, denoted by the trading symbol “FHAM”.

Background First Habib Modaraba was established in 1985 as a perpetual multipurpose modaraba, carrying out operations primarily in the Islamic mode of leasing business on the principles of Islamic Shari’a. Habib Metropolitan Modaraba Management Company (Pvt.) Limited is the management company of Modaraba.

Operations The Modaraba offers Ijarah and Diminishing Musharika financing, primarily for plant & machinery and vehicles. In early FY19, the Modaraba engaged in window operations in Habib Metro Bank branches for the development and proposition of Islamic Financial to clientele to whom such investments show promise.

Ownership

Ownership Structure The major shareholding of the Modaraba is held by Habib Management Private Limited (~54%), whereas ~10% shareholding is held by the Modaraba management company (Habib Metropolitan Modaraba Management Company). The remainder of shareholding is distributed between various individuals, corporations, financial institutions and other parties.

Stability The Modaraba is proceeding on a path of growth, in terms of business scale and size of financial assets on sound footing. Modaraba has adopted a generally prudent approach in its prospective expansion plans.

Business Acumen Aside from HMBL (Habib Metro Bank Limited), the sponsor holds a strategic stake in various sectors. The ownership of HMBL has proven beneficial for the Modaraba, achieving numerous milestones and establishing a strong position in the sector, demonstrating robust sponsor acumen.

Financial Strength HMBL is the sponsor of the Modaraba and possesses an asset base of over PKR 1,556bln and advances of over PKR 412bln as of CY23, carrying a strong financial profile.

Governance

Board Structure The Board of the Modaraba is structured with six members, composed of two Independent Directors, three Non-Executive Directors and one Executive Director, the CEO of the Modaraba. The Board of Directors of the Modaraba comprises professionals having vast experience in the banking and finance sectors.

Members’ Profile The Board’s Chairman, Mr. M. Shams Izhar, possesses professional experience of over 36 years in banking with specialization in corporate governance and risk management.

Board Effectiveness The Board has established two Board-level committees, namely; the Audit Committee and Human Resource Committee, chaired by independent directors. The Board’s performance is mandated by SECP Regulations and offers supervisory efficacy, as evidenced by the holding of periodic meetings.

Financial Transparency M/s. EY Ford Rhodes, Chartered Accountants the External Auditor of the Modaraba has expressed an unqualified opinion on the Modaraba’s financial statements for FY23.

Management

Organizational Structure A lean organization has been implemented by the Modaraba, with reporting lines ultimately converging toward the CEO of the Modaraba, the Internal Audit department being an exception as it reports directly to the Audit Committee.

Management Team The Modaraba is led by Mr. Shoaib Ibrahim as the Chief Executive Officer. He is a veteran of the Non-Banking Islamic Financial industry, being the previous chairman of the NBF and Modaraba Association, with a career spanning over 3 decades. Mr. Tehsin Abbas serves as both the CFO and Company Secretary of the Modaraba, bringing with him an experience of 3 decades with the Modaraba. The management team comprises seasoned and loyal professionals.

Effectiveness The Modaraba has established a comprehensive Code of Conduct, setting high standards for conduct and compliance with various stakeholders. Three Management Committees oversee operations: Credit, Market Investment, and Assets & Liability Management holding regular meetings for operational discussions.

MIS The Modaraba has in-house developed ERP-based MIS (ERP-I) for efficient and timely reporting. Current MIS can be classified into three categories based on periodicity – Daily, Weekly and Monthly.

Risk Management Framework The Modaraba’s management actively seeks opportunities to meet its strategic goals while ensuring RMF is properly implemented. The Modaraba fosters strong interdepartmental communication on risk factors and promotes a culture of collaborative decision-making across all departments.

Business Risk

Industry Dynamics The business environment in the country remained challenging, and measures taken by the Government toward economic stabilization have impacted overall business sentiments. Due to adverse economic indicators in recent periods, the scenario has turned into a gloomy outlook. The transportation sector has also been under strain and disbursements in the vehicle business was conservatively reduced, however gradual revival of the sector seems imminent. The cost of business has risen and NBFs continue to face stiff competition from banks.

Relative Position The Modaraba has established itself as one of the leading players in the Modaraba industry, acquiring a share of ~39% based on total assets as of FY23.

Revenues The recovering economy positively impacted the Modaraba’s key revenue generators. During FY23 the advances income reflected an uptake of ~119% reporting at PKR 3,435mln (FY22: PKR 1,563mln). Subject to a strategic shift toward close of lease financing and focusing on diminishing financing advances income during 9MFY24 was solely generated from diminishing musharaka financing. During 9MFY24 the advances income reported at PKR 3,744mln reflecting an uptake of ~64% (9MFY23: PKR 2,287mln).

Performance Stability continues to be depicted in the financial performance of the Modaraba. In line with the growing topline, the financing costs grew in proportion, in addition to other costs that remained in line. During FY23, the Modaraba achieved a ~36% YoY growth, reporting a PAT of PKR 520mln (FY22: PKR 382mln). During 9MFY24 the Modaraba reported a PAT of PKR 658mln (9MFY23: PKR 409mln). The stable performance of the Modaraba is further indicated by its stable return on assets (9MFY24: ~3.9%; FY23: ~2.8%; FY22: ~2.6%).

Sustainability Given its strong risk management framework, business is conducted with low-risk customers. In terms of market segmentation, Modaraba intends to focus on the following sectors: i) Food & Allied Products ii) Services iii) Energy & Power iv) Pharmaceuticals v) Steel and Cement vi) Healthcare and vii) Education. Further, Modaraba intends to enhance market reach in new cities and add a sound customer base.

Financial Risk

Credit Risk The Modaraba credit risk is primarily managed through a comprehensive credit policy, which is pre-approved by the Board of Directors (BoD). The Modaraba has decreased its investments in debt instruments, reducing its Term Deposit Musharaka (TDM) and directing funds into Sukuks. Further, the financing mix of the Modaraba is concentrated in three sectors, namely; i) Pharmaceutical ii) Services iii) Food & Allied.

Market Risk The Modaraba has developed a comprehensive investment policy that contains provisions for the activities of the overall investment portfolio as well as per script exposure. The Modaraba’s investment portfolio continues to be dominated by highly rated entity investments, along with subtle exposure to Sukuk investments and TDMs.

Liquidity And Funding The Modaraba has issued COMs for 3-month, 6-month, and 1-year periods. However, the overall portfolio is tilted towards 3 months maturity, which depicts market confidence in the Modaraba. The option to avail of additional finances in case of any adverse event is available from the group bank. The liquidity position of the Modaraba is as; Liquid Assets / Total Funding ratio (9MFY24: ~1.8%; FY23: ~1.5%; FY22: ~1.9%). The Modaraba obtains primary funding from Certificates of Musharika (CoM). The Modaraba’s total funding stood at PKR 17,860mln at 9MFY24 (FY23: PKR 14,893mln, FY22: PKR 12,396mln).

Capitalization The Modaraba had a CAR of 23% in FY23, portraying Modaraba’s strong position, should adverse circumstances arise. The Modaraba’s substantial growth in asset base would need to be financed through either fresh equity injection or borrowed funds. This is prominent by an increase in the funding base by the Modaraba to increase the financing portfolio. The Modaraba reported an equity base of PKR 5,080mln as of 9MFY24 (FY23: PKR 4,614mln, FY22: PKR 3,977mln).



First Habib Modaraba
Public Listed Company

PKR mln

Mar-24 **Jun-23** **Jun-22** **Jun-21**
9M **12M** **12M** **12M**

A BALANCE SHEET

1 Total Finance-net	22,449	19,380	16,464	11,194
2 Investments	191	145	93	303
3 Other Earning Assets	37	87	118	208
4 Non-Earning Assets	717	360	233	267
5 Non-Performing Finances-net	797	568	255	151
Total Assets	24,192	20,540	17,163	12,123
6 Funding	17,860	14,893	12,396	7,701
7 Other Liabilities	1,252	1,033	790	593
Total Liabilities	19,112	15,926	13,186	8,294
Equity	5,080	4,614	3,977	3,828

B INCOME STATEMENT

1 Mark Up Earned	3,895	3,607	1,630	972
2 Mark Up Expensed	(2,518)	(2,288)	(934)	(423)
3 Non Mark Up Income	52	103	144	58
Total Income	1,428	1,422	840	607
4 Non-Mark Up Expenses	(291)	(319)	(231)	(202)
5 Provisions/Write offs/Reversals	(248)	(332)	(114)	(41)
Pre-Tax Profit	890	771	495	363
6 Taxes	(232)	(251)	(113)	-
Profit After Tax	658	520	382	363

C RATIO ANALYSIS

1 PERFORMANCE

a Non-Mark Up Expenses / Total Income	20.4%	22.4%	27.5%	33.3%
b ROE	18.1%	12.1%	9.8%	9.7%

2 CREDIT RISK

a Gross Finances (Total Finance-net + Non-Performing Advances + Non-Performing Debt Instruments) / Funding	125.7%	130.1%	132.8%	145.4%
b Accumulated Provisions / Non-Performing Advances	N/A	N/A	N/A	N/A

3 FUNDING & LIQUIDITY

a Liquid Assets / Funding	1.8%	1.5%	1.9%	6.7%
b Borrowings from Banks and Other Financial Institutions / Funding	12.6%	5.0%	6.0%	0.6%

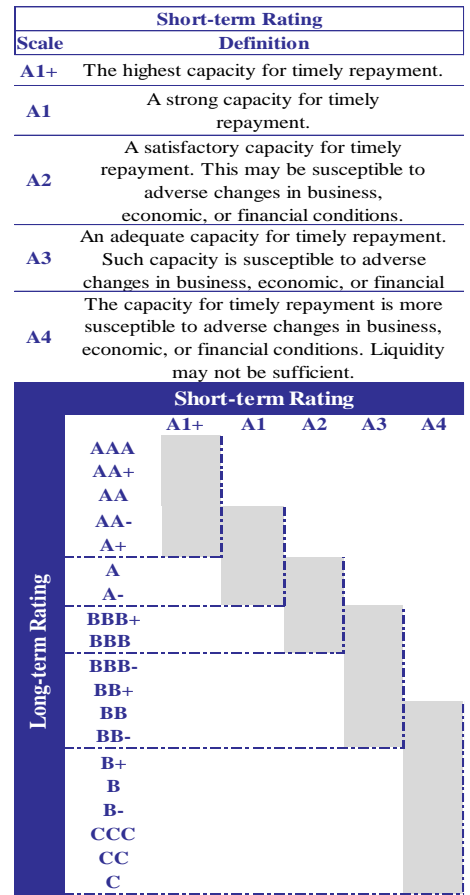
4 MARKET RISK

a Investments / Equity	3.8%	3.1%	2.3%	7.9%
b (Equity Investments + Related Party) / Equity	1.4%	0.9%	2.3%	7.9%

5 CAPITALIZATION

a Equity / Total Assets (D+E+F)	21.0%	22.5%	23.2%	31.6%
b Capital formation rate (Profit After Tax + Cash Dividend) / Equity	12.6%	7.7%	2.6%	2.2%

Credit Rating	
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.	
Scale	Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA	
AA-	
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.
A	
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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.
B	
B-	
CCC	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.
CC	
C	
D	Obligations are currently in default.



*The correlation shown is indicative and, in certain cases, may not hold.

<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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Companies Rating

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(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

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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 | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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