

## First National Bank Modaraba

Chairman: Mr. Zubair Haider Shaikh; Chief Executive: Mr. Javaid Sadiq

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### Rating Rationale

Category	Latest	Previous
<b>Entity</b>	<b>A/A-1</b> Dec 31, '13	<b>A+/A-1</b> Nov 14, '12
<b>Outlook</b>	<b>Stable</b> Dec 31, '13	<b>Negative</b> Nov 14, '12

The ratings assigned to First National Bank Modaraba (FNBM) draw strength from the implicit support of National Bank of Pakistan (NBP) which owns National Bank Modaraba Management Company Limited, the management company of FNBM. In addition to name sharing, credit lines have also been made available from NBP.

FNBM has extended financing under murabaha and Ijarah modes. In FY13, the proportion of Ijarah financing was increased to about 57% of the total portfolio. Almost half of the financing portfolio comprises exposure against textile and sugar sector companies. FNBM plans to diversify its portfolio, going forward. Clientele of the modaraba comprises mostly second to third tier companies and the portfolio features client wise concentration.

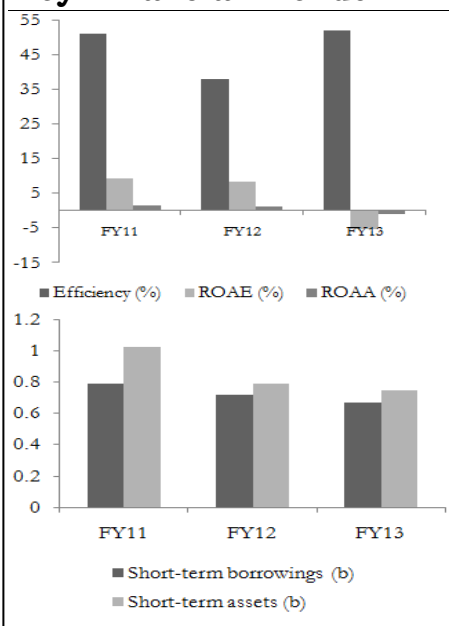
Historically, lending portfolio of FNBM had featured manageable level of infection. In FY12 & FY13, the modaraba experienced a rise in infection, particularly in its murabaha portfolio. Almost one-third of the murabaha portfolio was classified at end-FY13 while quality of ijarah financing is better. Net infection stood higher at 14% at end-FY13, despite additional provisions of Rs. 45.6m created during the year.

The funding mix comprises bank credit lines and Certificates of Musharakah (CoMs). Total borrowings increased modestly to Rs. 1.34b (FY12: Rs. 1.29b). The CoMs portfolio, a relatively cheaper source of financing, almost doubled to Rs. 445.5m by end-FY13 carrying profit rate of about 10.5% vis-à-vis bank credit lines entailing cost of about 10.8%. Accordingly, the proportion of COMs in the total borrowings increased to 33% (FY12: 17%). Liquidity profile of the modaraba was adversely affected by the increase in non-performing assets. The availability of un-utilized credit lines provides some comfort to the liquidity assessment.

Total revenues, net of depreciation, decreased to Rs. 186.1m (FY12: Rs. 257.4m) during FY13 primarily on account of lower profit on murabaha investment. Furthermore, provisioning charge of Rs. 45.6m resulted in a loss of Rs. 16.9m for the year. FNBM posted a profit of Rs. 1.06m in 1Q14 after accounting for additional provisioning of Rs. 11m. The management is projecting a nominal profit of Rs. 5m for the on-going year, with additional provisions of Rs. 37m proposed to be created in the period. Improvement in asset quality is considered important as earnings have limited capacity to absorb the impact of NPLs.

Total equity reduced to Rs. 297.9m by end FY13, on account of loss reported for the year and cash dividend payment for the preceding year. In order to maintain the risk profile of the institution, external capital injection may be required. Fresh equity injection may also be required to pursue growth in future as leverage indicators have trended upwards. Debt leverage was reported at 4.8x at end FY13 vis-à-vis 4.1x at end FY12.

### Key Financial Trends



(Rs. million)	2011	2012	2013
<b>Total Assets</b>	1,972	1,725	1,719
<b>Total Financing</b>	1,612	1,510	1,424
<b>Equity</b>	337	340	298
<b>Net Infection (%)</b>	3%	9%	14%
<b>Profit/(loss)</b>	30.6	27.6	(16.9)
<b>Leverage (x)</b>	4.8	4.1	4.8
<b>ROAA(%)</b>	1.56	1.32	(0.86)

### Overview of the Institution

FNBM is a multi-purpose, multi-dimensional and perpetual modaraba, which was established in 2003 and is listed on Lahore & Karachi stock exchanges. The modaraba is primarily engaged in shariah based financing including Ijarah, Murabaha and Musharakah. The external auditors of the modaraba are M/s Horwath Hussain Chaudhury & Co. The auditors are listed in the 'A' Category of SBP's panel of auditors JCR-VIS

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<b><u>RATING TYPE: Entity</u></b>				
02-Jan-14	A	Stable	A-1	Downgrade
14-Nov-12	A+	Negative	A-1	Maintained
08-Jul-11	A+	Stable	A-1	Reaffirmed
20-May-10	A+	Stable	A-1	Reaffirmed