

## RATING REPORT

### First National Bank Modaraba (FNBM)

**REPORT DATE:**

June 20, 2016

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	BBB+	A-3	A	A-1
<b>Rating Outlook</b>	Negative		Negative	
<b>Rating Date</b>	June 14, '16		July 6, '15	

#### COMPANY INFORMATION

<b>Incorporated in 2003</b>	<b>External Auditors:</b> M/s Riaz Ahmad & Co., Chartered Accountants
<b>Public Listed Company</b>	<b>Chairman of the Board:</b> Mr. Wajahat A. Baqai
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Khaqan Hasnain Ibrahim
National Bank Modaraba Management Company Limited – 30%	
Dinaz F. Cassim– 8%	

#### APPLICABLE METHODOLOGY(IES)

 JCR-VIS Entity Rating Criteria: Non-Bank Financial Companies <http://jcrvis.com.pk/Images/NBFC.pdf>

## First National Bank Modaraba (FNBM)

### OVERVIEW OF THE INSTITUTION

FNBM is a multi-purpose Modaraba operating since 2003. The modaraba is engaged in providing Islamic financing including ijarah, diminishing musharakah and murabaha facilities. FNBM is listed on the Pakistan Stock Exchange with the head office situated in Lahore.

### RATING RATIONALE

Over the last five years, equity base of FNBM has eroded significantly on account of additional provisioning taken by FNBM due to increasing infection and depleting financing portfolio leading to higher losses. In view of this, financial risk profile of the modaraba has weakened while further provisioning against classified accounts may aggravate losses. Ratings continue to draw comfort from FNBM's association with National Bank of Pakistan (NBP). Sufficient injection of equity along with building up of quality financing portfolio is considered essential for long term sustainability of the modaraba. In this respect a three year plan has been submitted to the regulator.

FNBM is a small sized modaraba with a market share (in terms of asset base) of around 4% at end-FY15. Core operations of the modaraba remained subdued with financing portfolio declining to Rs. 760.7m (FY14: Rs 1.21b) and further to Rs. 608.3m by end-1HFY16. Asset quality indicators remained stressed reflected by a gross infection ratio of 57.6% (FY15: 39.8%; FY14: 23.7%) by end-1HFY16. The management is in discussion with NBP to take up certain common classified accounts; this would result in injection of cash along with provisioning reversal. As per the revised credit policy, average ticket size is expected to be reduced with focus mainly on vehicle financing and financing for gensets.

Revenue from core operations remain subdued attributable to reduction in financing portfolio along with high proportion of non performing finances. Further provisioning against certain non performing finances may aggravate losses. Operating expenses have been curtailed through staff rationalization and other cost control measures. The modaraba posted a net loss of Rs. 49.6m during 1HFY16 (FY15: Rs. 122.2m; FY14: Rs. 34.2m).

Total COMs and borrowings declined to Rs. 732.3m (FY14: Rs. 1.0b) and further to Rs. 583.7m by end-1HFY16; recently the management has almost entirely paid of its COMs. NBP has provided a long term finance of Rs. 200m for three years of which Rs. 100m was availed by the modaraba as at end-1HFY16. Liquidity profile of the institution remained stressed with liquid assets representing 8.3% of total COMs and borrowings at end-1HFY16 (FY15: 12.2%; FY14: 4.8%). Moreover, current liabilities exceeded current assets by Rs. 154.4m at end-1HFY16; ijarah rentals due from unclassified accounts amounted to Rs. 217m at end-1HFY16.

Net worth of the modaraba declined to Rs. 141.5m (FY14: Rs. 263.7m) and further to Rs. 91.9m by end-1HFY16 on account of accumulated losses which exceeds 50% of the amount subscribed by holders of modaraba certificates.

## First National Bank Modaraba (FNBM)

## Appendix I

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b>BALANCE SHEET</b>	<b>Dec 31, 2015</b>	<b>Jun 30, 2015</b>	<b>Jun 30, 2014</b>
Net Financing	608.3	760.7	1,214.1
Total Assets	737.1	946.3	1,383.2
Borrowings	323.2	436.7	780.0
COMs	260.5	295.6	258.6
Net Worth	91.9	141.5	263.7
<b>INCOME STATEMENT</b>			
	<b>Dec 31, 2015</b>	<b>Jun 30, 2015</b>	<b>Jun 30, 2014</b>
Net Mark-up/ Core Income	153.2	351.5	432.8
Net (Provisioning) / Reversal	(57.60)	(113.1)	(32.5)
Operating Expenses	10.01	23.2	24.0
Profit (Loss) Before Tax	(49.63)	(122.2)	(34.2)
Profit (Loss) After Tax	(49.63)	(122.2)	(34.2)
<b>RATIO ANALYSIS</b>			
	<b>Dec 31, 2015</b>	<b>Jun 30, 2015</b>	<b>Jun 30, 2014</b>
Gross Infection	57.6%	39.8%	26.0%
Provisioning Coverage	50.8%	50.0%	34.0%
Net Infection	40.1%	24.8%	18.8%
ROAA	--	--	--
ROAE	--	--	--
Current Ratio (x)	0.68	0.47	0.69

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

Short-Term

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	First National Bank Modaraba				
<b>Sector</b>	Modaraba				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	14-June-16	BBB+	A-3	Negative	Downgrade
	06-Jul-15	A	A-1	Negative	Maintained
	02-Jan-14	A	A-1	Stable	Downgrade
	14-Nov-12	A+	A-1	Negative	Maintained
	08-Jul-11	A+	A-1	Stable	Reaffirmed
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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