RATING REPORT

First Credit and Investment Bank Limited

REPORT DATE:
December 31, 2021

RATING ANALYST:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*Dec 31, 2021*		*Dec 31, 2020*	

COMPANY INFORMATION

Incorporated in 1989	**External auditors:** Crowe Hussain Chaudhury & Co. Chartered Accountants
Non-Banking Finance Company	**Chairman of the Board:** Mr. Faisal Ahmed Topra
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mohammad Mohsin Ali
National Bank of Pakistan (NBP) ~30.8%	
Water and Power Development Authority (WAPDA) ~30.8%	
Sardar Mohammad Ashraf D. Baluch & Co. (Pvt.) Ltd ~19.7%	
Lilley International (Pvt.) Ltd ~10.2%	
Sardar Mohammad Ashraf D. Baluch (Pvt.) Limited ~7.4%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Non-Bank Financial Companies (March 2020)
http://vis.com.pk/kc-meth.aspx

First Credit and Investment Bank Limited

OVERVIEW OF THE INSTITUTION

First Credit and Investment Bank Limited (FCIBL) was incorporated in 1989 under the name of 'First Credit and Discount Corporation (Pvt.) Limited' as a private company with limited liability. It was later converted into a public company and its name was changed to First Credit and Investment Bank Limited. The company holds an investment banking services license from Securities and Exchange Commission Pakistan (SECP) and is listed on the Pakistan Stock Exchange (PSX).

Profile of Chairman

Mr. Faisal (a nominee of NBP) is a seasoned professional with cumulative experience of over 25 years in product development, strategic planning, credit and investment banking. He holds an MBA degree from Southeastern University Washington (USA) and M.Phil in Management Sciences from Szabist University.

Profile of CEO

Mr. Muhammad Mohsin Ali has been the CEO & President of the bank since FY17. Mr. Mohsin Ali is a fellow member of cost & management accountant. He has more than 30 years diverse professional experience in various

RATING RATIONALE

Headquartered in Karachi, First Credit and Investment Bank Limited (FCIBL) operates as an NBFC and is engaged in the provision of both funded and non-funded based facilities and advisory services. As per management, the plan to convert FCIBL into a deposit taking NBFC remains intact; however, some liquidity cushion over the minimum equity requirement of Rs. 750m is warranted and being pursued. Moreover, the institution has acquired money market brokerage license with plans to target commercial banks and DFIs for the provision of services; hiring of resources is currently underway.

NBFI/Modaraba Industry Profile

As per NBFI-Modaraba Association of Pakistan, the industry comprises 27 Modaraba companies (MoCo), 8 Leasing companies (LCs) and 4 Investment Finance Services companies (IFS). In the leasing industry, subsequent to the regulator debarring by SECP on account of non-fulfillment of minimum capital requirements and adverse financial conditions, there are now only 4 operational leasing companies.

Key Financial Indicators – NBFI/Modaraba Industry

	2019				2020			
Rs. in millions	**LCs**	**MoCo**	**IFS**	**Total**	**LCs**	**MoCo**	**IFS**	**Total**
No. of Companies	**8**	**27**	**4**	**39**	**8**	**27**	**3**	**38**
Assets	10,577	54,084	30,580	**95,241**	10,807	51,585	27,785	**90,177**
Equity	5,319	20,997	10,953	**37,270**	5,366	18,743	12,205	**36,314**
Borrowings	1,293	16,928	12,281	**30,502**	1,178	16,387	8,454	**26,018**
Gearing	24%	81%	112%	**82%**	22%	87%	69%	**72%**
PAT	(115)	(1,315)	1,126	**(304)**	128	(2,098)	779	**(1,191)**
ROA	-1.1%	-2.4%	3.7%	**-0.3%**	1.2%	-4.1%	2.8%	**-1.3%**

Source: NBFI-Modaraba Association (As per latest Year Book 2020)

Amidst Covid-19 pandemic, asset quality indicators in the leasing industry were impacted with increasing trend in infection levels while overall credit risk in the economy remains elevated. As NBFIs/ Modarabas serve SME borrowers usually not covered by banks, credit risk of the industry tends to be higher than that of banking industry clientele. Going forward, new Covid-19 variants (Omicron) and uncertainty of its impact on overall economy and political environment are the key present business risk factors.

Key Rating Drivers:

Strong sponsor profile with two state-owned entities holding majority ownership.

FCIBL is an associate undertaking of Water and Power Development Authority (WAPDA) and National Bank of Pakistan (NBP); each holding around 31% ownership. The ratings continue to factor in strong sponsor and financial strength of both the major sponsors. Business risk profile is supported by institution's longstanding presence in the industry, satisfactory capitalization and moderate approach of risk appetite.

Loan portfolio has registered a declining trend over the past three fiscal years. Going forward, the management plans to diversify into housing finance;

organizations including 25 years in the financial services sector.

negotiations are currently underway for subsidized rates under GoP schemes.
Around four-fifth of asset base comprises loans, finances and investment portfolio. The quantum of loan portfolio has reduced by more than one-half over the period of past three fiscal years (FY19-21) on account of continued maturities. Net loans (including current portion) were reported at Rs. 441.3m (FY21: Rs. 466.7m; FY20: Rs. 565.0m) at end-Sept'21. No fresh NPLs were observed since last review. Overall sectoral concentration remains prevalent in sugar and cement sectors while client wise concentration also exists given entire client base comprising 10 corporates and few individuals. As per management, 2 additional clients are in the pipeline while total disbursements of Rs. 100m is planned for the ongoing year with major targeted sectors including technology, auto parts and oil sector. Moreover, the management plans to diversify into housing finance while negotiations are currently underway with PMRC for subsidized rates under GoP schemes.

Sizeable investments in treasury bills during FY21 were fully divested in the ongoing year. The management continues to invest in arbitrage transactions of treasury securities whenever there is a window of opportunity.
Total investment portfolio (including long-term and short-term investments) was reported at Rs. 506.4m (FY21: 1.5b; FY20: 863.8m) at end-Sept'21. Historically, major proportion of investments has been deployed in PIBs. However, during the outgoing fiscal year, a shift in investment portfolio was noted from long-term PIBs to short tenor treasury bills where the investments reached to Rs. 998.8m at end-June'21. Subsequently, the same were completely divested in 1Q'FY22. Other investment avenues include TFCs, equities and mutual funds. Moreover, the receivables of Rs. 1b at end-Sept'21 pertains to sale of treasury securities with future settlement. The management continues to invest in arbitrage transactions of treasury securities whenever there is a window of opportunity.

Liquidity indicators are satisfactory given healthy investment portfolio. Gearing has improved on account of decrease in debt levels.
Overall liquidity profile is considered satisfactory in view of adequate liquid assets in relation to total liabilities. The same has exhibited improvement over the review period due to sizeable growth in liquid investment portfolio coupled with declining trend in advances portfolio. The institution has short term repo borrowing line of Rs. 3b in place to earn a positive spread by placing funds in government securities. Total borrowings were reduced almost by half and were reported at 491.8m (FY21: 491.8m; FY20: 834.6m) as at end-Sept'21. Given the same, gearing ratio has witnessed improvement in FY21 and in the ongoing year.

Earning profile has depicted weakening in the outgoing fiscal year.
In FY21, overall recurring revenue registered a decline of ~7% mainly due to fall in income from long-term finances and funds placements, reducing nearly by one-half. However, the topline was significantly supported by higher investment income (particularly from return on government securities). With operating expenses reporting at similar levels (vis-à-vis SPLY), bottom-line profitability decreased to Rs. 20.5m (FY20: Rs. 28.7m). In line with the same, cost-to-income ratios was reported higher at 70.2% (FY20: 63.6%). The same further increased to 86.9% in 1Q'FY22.

Corporate governance framework is considered sound.
During the review period, the institution appointed two additional directors while increasing its Board size to eight members; of which 4 members representing two major sponsors. The incoming directors included Mr. Jamal Nasim and Mr. Faisal Ahmed Topra. Mr. Faisal subsequently was appointed as the Board Chairman replacing Mr. Asad Ullah Saleem. In

	line with best practices, one-third of the board is represented by independent directors along with female representation. There are three board level committees in place namely; Board HR&R Committee, Audit Committee and Risk Management Committee. The former two committees are chaired by independent directors.

First Credit and Investment Bank Limited **Appendix I**

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**30-Jun-19**	**30-Jun-20**	**30-Jun-21**	**30-Sep-21**
Long Term Investments	29.5	756.5	366.0	359.1
Short Term Investments	93.2	107.3	1,149.5	147.4
Long Term Loans and Advances	524.1	483.5	273.2	248.7
Deferred Tax Assets	74.1	70.0	69.2	70.2
Current portion of non-current assets	127.0	82.2	194.2	193.1
Cash & Bank Balances	36.3	27.6	139.0	150.4
Short Term Placements	420.0	40.0	-	-
Markup/Interest accrued	61.1	68.5	42.6	37.9
Prepayments & Other Rec	-	-	5.0	1,005.0
Total Assets	1,385.3	1,667.2	2,272.0	2,244.9
Borrowings	616.6	834.6	491.8	469.4
Issued, subscribed and paid up share capital	650.0	650.0	650.0	650.0
Net Worth	718.6	738.9	750.0	744.1
INCOME STATEMENT				
Net Mark-up Income	56.8	76.6	59.1	20.0
Non-Markup Income	7.9	20.4	20.8	0.7
Operating Expenses	44.9	61.7	62.9	15.6
Profit Before Tax and Provisions	19.8	35.3	17.0	2.3
Profit Before Tax	15.2	37.8	28.8	4.8
Profit After Tax	9.5	28.7	20.5	3.1
RATIO ANALYSIS				
Efficiency (%)	69.7%	63.6%	70.2%	86.9%
ROAA (%)	0.70%	1.88%	1.04%	0.55%
ROAE (%)	1.32%	3.94%	2.76%	1.66%
Leverage (x)	0.93	1.26	2.03	2.02
Gearing (x)	0.86	1.13	0.66	0.63
Liquid Asset to Total Liabilities (x)	0.71	0.91	1.06	0.41

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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
Name of Rated Entity	First Credit and Investment Bank Limited					
Sector	Non-Banking Finance Company (NBFC)					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**	
	RATING TYPE: ENTITY					
	12/31/2021	A	A-2	Stable	Upgrade	
	12/31/2020	A-	A-2	Stable	Reaffirmed	
	12/31/2019	A-	A-2	Stable	Reaffirmed	
	12/28/2018	A-	A-2	Stable	Reaffirmed	
	12/29/2017	A-	A-2	Stable	Reaffirmed	
	12/30/2016	A-	A-2	Stable	Reaffirmed	
	12/30/2015	A-	A-2	Stable	Reaffirmed	
Instrument Structure	N/A					
Statement by the Rating Team	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.					
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.					
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Due Diligence Meeting Conducted	**Name**	**Designation**	**Date**			
	Muhammad Kamran	Chief Financial Officer	Dec 23, 2021			