

RATING REPORT

First Credit and Investment Bank Limited

REPORT DATE:

Dec 30, 2022

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 30, 2022		Dec 31, 2021	

COMPANY INFORMATION

Incorporated in 1989	External auditors: Crowe Hussain Chaudhry & 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: Muhammad Mohsin Ali
<i>National Bank of Pakistan (NBP) ~30.8%</i>	
<i>Water and Power Development Authority (WAPDA) ~30.8%</i>	
<i>Sardar Mobammad Ashraf D. Baluch & Co. (Pvt.) Ltd ~19.7%</i>	
<i>Lilley International (Pvt.) Ltd ~10.2%</i>	
<i>Sardar Mobammad Ashraf D. Baluch (Pvt.) Limited ~7.4%</i>	

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	RATING RATIONALE
<p><i>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 finance services license from Securities and Exchange Commission Pakistan (SECP) and is listed on the Pakistan Stock Exchange (PSX).</i></p> <p>Profile of Chairman <i>Mr. Faisal Ahmed Topra (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.</i></p> <p>Profile of CEO <i>Mr. Muhammad Mobsin Ali has been the CEO & President of the bank since FY17. Mr. Mobsin Ali is a fellow member of Institute of Cost & Management Accountants (ICMA). He has more than 30 years diverse professional experience in various organizations including 25 years in the financial services sector.</i></p>	<p>First Credit and Investment Bank (FCIBL) is a Non-Banking Finance Company (NBFC) with non-deposit taking status and its primary operations include the provision of funded and non-funded based facilities and advisory services.</p> <p>Key Rating Drivers:</p> <p>Strong sponsorship through backing of two major state-owned entities: FCIBL's ratings take into account sponsorship profile with Water and Power Development Authority (WAPDA) and National Bank of Pakistan (NBP) each having 30.8% ownership. Both entities are prominent government entities which may provide support to the bank, if required.</p> <p>Decreasing trend in overall loan portfolio till end-FY22: Total long-term advances stood at PKR 383.3m at end-1QFY23 (FY22: PKR 382.2m, FY21: PKR 439.2m, FY20: PKR 545.0m). The company has witnessed a decreasing trend in advances portfolio due to cautious approach of the management in disbursing advances along with continued loan maturities. The bank also follows a strategy to disburse smaller loans in order to manage the associated risk. In the outgoing year, new exposures amounting to PKR 80.3 m were disbursed and PKR 30.0m in the 1QFY23; There was no new provisioning on loan during the outgoing year. Recovery of PKR 9m was made from fully provided investment. In addition, an amount of PKR 4.9m was reversed based on subjective evaluation. The increase in gross infection ratio and net infection to 3.5x and 3.3x respectively (FY21: 3.1%, 2.9%) was due to decrease in overall loan portfolio. The company has budgeted further disbursement for the ongoing year.</p> <p>Focus will remain on short-term government investments while enhancing arbitrage opportunities in money market operations: In 1QFY23, total investment portfolio amounted to PKR 1.5b (FY22: PKR 1.4b, FY21: PKR 1.5b), primarily consisted of short-term investments of PKR 1.1b. Subsequent to the 1QFY23, the bank has invested in Floater PIBs. In the process of enhancing unfunded income stream, the bank has also established a money market & forex brokerage division which is expected to support the bank's profitability, going forward. The bank has also invested in long-term PIBs amounting to PKR 321.6m (FY22: PKR 318m, FY21: PKR 353.1m) as well as TFCs, shares and mutual funds which comprises the remainder of the total investment portfolio.</p> <p>Liquidity position remains sound owing to healthy investment portfolio and lower liabilities; increased gearing levels due to significant short-term repo borrowings; In the outgoing year, overall liquidity remained sound with liquid assets to total liabilities ratio at 1.08x (FY21: 1.06x) despite a slight decrease in liquid investments to PKR 1.4b (FY21: PKR 1.5b). Total liabilities decreased to PKR 1.3b (FY21: PKR 1.5b) primarily on account of accrued and other expenses declining to PKR 11.8m (FY21: PKR 1.0b) at end-FY22; the trade date accounting disclosure wherein the bank committed to the purchase of treasury securities amounting to about the same amount within the previous year. Total borrowings amounting PKR 1.3b (FY21: PKR 491.8m) constituted primarily of short-term repo borrowings were utilized to fund investments in PIBs with floating rates to earn positive</p>

spread. This enhanced exposure may increase the risk related to asset liability mismatch. Meanwhile, gearing ratio increased notably to 1.78x in FY22 (FY21: 0.66x) due to the increase in repo borrowings mobilized for spread transaction along with slightly lower equity base of PKR 721.8m (FY21: PKR 750m). Liquidity and leverage indicators have remained stable during 1QFY23.

Continued decreasing trend was witnessed in core income and net profitability:

In the outgoing year, net markup income decreased slightly to PKR 58.2m (FY21: 59.1m) with lower return witnessed in long-term finances amounting to PKR 43.7m (FY21: PKR 49.6m) as overall loan portfolio size decreased. The non-markup income recorded a notable decline to PKR 8.2m (FY21: PKR 20.8m) primarily on the account of unrealized loss on investments of PKR (4.8m) (FY21: PKR 5.5m) and lower fees and commissions earnings of PKR 1.7m (FY21: PKR 3.3m). Finance costs increased slightly to PKR 67.6m (FY21: PKR 65.1m) due to incurrence of higher interest rates and short-term repo-borrowings. Administrative and operating expenses increased to PKR 68.2m (FY21: PKR 62.9m) on the back of high inflationary trend with cost-to-income ratio increasing to 54% (FY21: 51.6%). Overall, operating loss stood at PKR (1.8m) (FY21: profit PKR 17m). However, reversals in diminution of long-term investments amounting to PKR 14.8m (FY21: PKR 12.4m) resulted in a positive bottom-line of PKR 8.1m (FY21: PKR 20.5m). The bank reported nominal profit during 1QFY23 largely on the back of reversal against provisions. The bank needs to arrest the declining trend in profitability by maintaining a minimum threshold of a good financing portfolio while improving efficiency ratio.

Satisfactory corporate governance framework in place:

The bank's board consisted of eight members with the only change in composition being the replacement of WAPDA's nominee director. Additionally, in accordance with best practices, one-third of the board constitutes of independent directors and also includes female representation. Moreover, three board committees are present, namely, Audit and Internal Controls Committee, HR & Remuneration Committee and Risk Management Committee. The former two have been assigned independent directors as chairpersons.

FINANCIAL SUMMARY				
<i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	30-Jun-20	30-Jun-21	30-Jun-22	30-Sep-22
Long Term Investments	756.5	366.0	330.8	352.5
Short Term Investments	107.3	1149.5	1075.8	1111.7
Long Term Loans and Advances (incl. current portion)	545.0	439.2	382.2	383.3
Deferred Tax Assets	70.0	69.2	78.3	72.6
Current portion of non-current assets (excl. loans & finances)	20.6	28.1	32.8	20.3
Cash & Bank Balances	27.6	139.0	75.7	74.7
Markup/Interest accrued	68.5	42.6	41.4	28.7
Other Assets	71.8	38.4	35.3	37.6
Total Assets	1667.2	2272.0	2052.3	2081.1
Repo Borrowings	650.0	350.0	1262.7	1313.6
Other Borrowings (incl lease liability)	184.6	141.8	22.3	6.8
Accrued Expenses & Other Payables	68.7	1010.9	11.8	13.1
Other Liabilities	25.0	19.4	33.5	18.6
Total Liabilities	928.3	1522.1	1330.4	1352.1
Total Equity (incl. deficit on re-measurement on investments)	738.9	750.0	721.8	728.9
<u>INCOME STATEMENT</u>				
Net Mark-up Income	76.6	59.1	58.2	10.0
Non-Markup Income	20.4	20.8	8.2	4.6
Operating Expenses	61.7	62.9	68.2	19.4
Profit Before Tax and Provisions	35.3	17.0	-1.8	-4.3
Reversal / (Provision)	3.4	12.4	15.4	10.0
Profit Before Tax	37.8	28.8	13.3	5.6
Profit After Tax	28.7	20.5	8.2	2.7
<u>RATIO ANALYSIS</u>				
Gross Infection (%)	2.5%	3.1%	3.5%	3.5%
Provisioning Coverage (%)	0.2%	0.2%	0.2%	0.2%
Net Infection (%)	2.3%	2.9%	3.3%	3.3%
Efficiency (%)	44.6%	51.6%	54.0%	66.0%
ROAA (%)	1.7%	1.0%	0.4%	0.5%*
ROAE (%)	3.9%	2.8%	1.1%	1.5%*
Leverage (x)	1.26	2.03	1.84	1.85
Gearing (x)	1.13	0.66	1.78	1.81
Liquid Asset to Total Liabilities (x)	0.96	1.06	1.08	1.11

*Annualized

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				
	12/30/2022	A	A-2	Stable	Reaffirmed
	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		Nov 17, 2022	
	Muhammad Amin Khatri	Head Compliance and Risk		Nov 17, 2022	
	Haider Javed	Head Corporate and Investment Banking		Nov 17, 2022	