RATING REPORT

First Credit and Investment Bank Limited

REPORT DATE:
Feb 26, 2024

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	*Feb 26, 2024*		*Dec 30, 2022*	

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
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 https://docs.vis.com.pk/docs/NBFCs202003.pdf

First Credit and Investment Bank Limited

OVERVIEW OF THE INSTITUTION

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 and is listed on the Pakistan Stock Exchange (PSX).

Profile of Chairman

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.

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 Institute of Cost & Management Accountants (ICMA). He has around three decades of diverse professional experience in the financial services sector.

RATING RATIONALE

First Credit and Investment Bank (FCIBL) is a Non-Banking Finance Company (NBFC) and its primary operations include the provision of funded and non-funded based facilities and advisory services.

Key Rating Drivers:

Strong sponsorship through backing of two major state-owned entities:
FCIBL's ratings are significantly bolstered by the support of two major state-owned entities, Water and Power Development Authority (WAPDA) and National Bank of Pakistan (NBP) each holding 30.8% ownership stake. These entities, being key government institutions, are likely to provide necessary backing to the bank if needed.

Consolidation of loan portfolio amidst uncertain economic conditions
Gross long-term advances stood lower at Rs. 317.5m (FY23: Rs. 334.1m; FY22: Rs. 382.2) by end-Q1'FY24, which mainly included secured term finance facilities. The company has witnessed a decreasing trend in advances portfolio due to cautious approach of the management in disbursing advances. The Bank also follows a strategy to disburse smaller ticket loans in order to manage the risk associated with it. During FY23, advances amounting to Rs. 30.0m were disbursed *(Alsons Industries)*. Total non-performing loans (NPLs) and provisioning against these remained unchanged at Rs. 283.3m and Rs. 168.4m, respectively by end-FY23. However, gross and net infection ratio have increased to 4.2% (FY23: 4.0%; FY22: 3.5%) and 3.9% (FY23: 3.7%; FY22: 3.3%) respectively due to contraction in loan portfolio. The majority of the company's loans and advances are directed towards the sugar and cement sectors.

In the first half of the current year, the Bank did not make any new disbursements due to the challenging macroeconomic situation and political instability. However, in the latter half of FY24, the Bank plans to allocate loans amounting to Rs. 100 million, focusing primarily on existing clients who have demonstrated a reliable history of strong cash flows and consistent, timely repayments. Furthermore, the management anticipates that the restructuring of several accounts will be completed within the current year. Subsequently, the Bank expects timely recovery of loans from its clients.

Investment Mix:
The investment portfolio of the Company is predominantly composed of government securities, thus the market and credit risk emanating from this portfolio is considered to be minimal. During 1H'FY23, the Company changed its investment mix by converting its investment in short-term Treasury bills to long-term Pakistan Investment Bonds (PIBs), having varying maturity of 5 to 10 years. This shift was based on the expectation of stable or potentially decreasing interest rates. The market value of investment in PIBs stood at Rs. 1.07b (FY23: Rs. 1.07b; FY22: Rs. 318.0m) as of Sep 30, 2023, out of which nearly 72% were of floating rate. Deficit on revaluation of PIBs portfolio amounted to Rs. 61.1m (FY23: 56.4m; FY22: 42.5m). During FY23, the company majorly invested in Floater PIBs (FPIBs) with an average maturity of 5 years. The company has also invested in unlisted Sukuk/TFCs amounting to Rs. 168.8m (FY23: Rs. 171.3m; FY22: Rs. 181.2m), with major investment in Three Star Hosiery Pvt. Limited amounting to Rs. 101.0m (FY23: Rs. 103.6m; FY22: Rs. 113.4m), while net of

provision's investment in unlisted Sukuk/TFC's amounted to Rs. 50.59m (FY23: Rs. 50.59m; FY22: Rs. 11.34m) by end-Q1'FY24. Whereas short-term investments declined to Rs. 52.1m (FY23: Rs. 46.6m) by end-Q1'FY24, from Rs. 1.075b as of June 30, 2022, comprising mainly of TFCs of Deewan Cement Limited amounting to Rs. 35.0m (FY23: Rs. 35.0m), net of provision, while investment in listed companies have remained limited at Rs. 17.1m (FY23: Rs. 13.1m).

Investments Portfolio -Net of Provisions	FY22	FY23	Q1'FY24
Investment in Government Securities			
PIBs	318.0	1,069.8	1,066.8
Treasury-Bills	955.2	-	-
Investment in Term Finance Certificates/Sukuk-Listed	-	-	-
Investment in Term Finance Certificates/Sukuk-Unlisted	11.4	50.6	54.4
Quoted Shares	51.9	13.1	17.1
Mutual Funds	26.5	-	-
Leases	0.4	0.4	0.4
Total Investments	**1,363.4**	**1,133.8**	**1,138.7**

During 2Q'FY24, FCIBL divested its Floater PIBs with some capital gain and established a new portfolio with additional investment. By December 31, 2023, the Company's holdings in Floater PIBs amounted to Rs. 1.5 billion. In full year, the management expects to earn an average spread of 1.4% on its government securities portfolio.

Liquidity and Capitalization Profiles:
The Company has maintained adequate coverage of total liabilities through its liquid assets on a timeline basis (Sep 30, 2023: 1.13x; Jun 30, 2023: 1.16x; Jun 30 2022: 1.14x). Total borrowings were recorded at Rs. 1.14b (FY23: Rs. 1.09b; FY22: 1.3b) by end-1Q'FY24, which majorly included short-term repo borrowings which were utilized to fund investments in FPIBs. As of June 30, 2023, there was an on-balance sheet gap within one year bracket. This gap is primarily attributed to the timing of the investment maturities, which are scheduled to occur beyond the one-year threshold. Despite this mismatch, the bank consistently reviews the maturity profiles of its assets and liabilities to manage its liquidity risk. It is important to note that the liquidity position is supported by the fact that the short-term repo borrowings are secured against highly liquid government securities.

The capitalization indicators have exhibited improvement as witnessed by decrease in gearing and debt leverage to 1.51x (FY22: 1.78x) and 1.56x (FY22: 1.84x) by end-FY23, due to lower repo borrowings. Leverage indicators remained largely stable during Q1'FY24. Meanwhile, growth in equity base has remained relatively modest due to limited profitability (Q1'FY24: Rs. 728.7m; FY23: Rs. 723.9m; FY22: Rs. 721.8m). The Company has access to standby working capital facilities of Rs. 500m. Furthermore, this year, it has secured funding lines, a significant increase from the previous Rs. 200m, from the NBP for its treasury operations. This development is anticipated to favorably impact the reduction of its cost of capital.

Profitability shows signs of recovery in the outgoing year, with expectations for the trend to persist going forward: Overall FCIBL's profitability profile is characterized by thin spreads, underpinned by conservative selection of counterparty credit risk and declining advances as proportion of assets. In FY23, despite nearly two-fold increase in income from treasury operations, net markup income posted a modest increase of ~10%, amounting to Rs. 64.0m (FY22: Rs. 58.2m). This was primarily due to substantial increase in cost of funds, which aligned with sharp hike in markup rates in the outgoing year. Resultantly, net spread on government securities portfolio was marginally negative, as compared to 1.1% in FY22. On the other hand, yield on advances portfolio, which was entirely financed through equity, depicted improvement.

Non-markup income also showed an uptick to Rs. 24.1m (FY22: Rs. 8.2m) due to higher capital gain on securities of Rs. 18.7m (FY22: Rs. 6.8m) while dividend income has remained limited over the years. Finance cost incurred augmented to Rs. 191.2m (FY22: Rs. 67.6m), mainly due to higher average markup rates and short-term repo borrowings. Administrative expenses amounted to Rs. 88.4m (FY22: Rs. 68.3m), primarily on account increase in salaries and allowances amidst inflationary pressure. During the same period, reversals for diminution in value of long-term investments and accrued markup amounted to Rs. 28.8m (FY22: Rs. 15.3m) (*these reversals were mainly related to provisions against three-star hosiery and Amtex)*. Resultantly, after accounting for taxation, there was a modest increase in net profit to Rs. 13.0m (FY22: Rs. 8.2m) in the outgoing year.

During Q1'FY24, net mark-up income was recorded higher at Rs. 22.4m (Q1'FY23: Rs. 10.0m), largely due to higher spread on advances portfolio. However, non-markup income has remained subdued at Rs. 3.12m (Q1'FY23: Rs. 4.6m). Finance cost incurred amounted to Rs. 63.2m (Q1'FY23: Rs. 49.4m) during Q1'FY24 on account of higher reliance of short-term repo borrowings, to fund investment in Govt. securities. The Company recorded reversals of the diminution in long-term investments at Rs. 6.6m, compared to Rs. 8.0m during SPLY. Net profit was recorded higher at Rs. 6.3m vis-à-vis Rs. 2.7m in SPLY. With expectations of largely stable markup rates in the ongoing year, management anticipates a positive spread of around 1.5% on its treasury portfolio in FY24. Furthermore, increased reversals in provisioning are likely to support the profitability profile in the current year.

Corporate governance framework:
At present, Board of Director (BoD) of FCIBL consists of seven members. During CY23, Mr. Muhammad Naeemuddin stepped down and was succeeded by Mr. Amjad Iqbal as an Independent Director. Additionally, in accordance with best practices, one-third of the board constitutes of independent directors including female representation. Moreover, the Board has established three committees, namely, Audit and Internal Controls Committee (A&IC), HR & Remuneration Committee (HR&RC) and Risk Management Committee (RMC). Both the HR & Remuneration Committee and the Audit Committee are chaired by independent directors. Financial statements of FY23 were audited by M/s. Crowe Hussain Chaudhry & Co. Chartered Accountants, which are classified in 'Category A' of SBP's Panel of Auditors. During the year, the auditors retired and being eligible offered themselves for rehiring. Subsequently, the audit committee has appointed by M/s. Crowe Hussain Chaudhry & Co. Chartered Accountants as auditors for the year ending June 30, 2024.

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

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	FY21	FY22	FY23	Q1'FY24
Non-current Assets	17.4	11	21.6	31.5
Long Term Investments (including current Portion)	393.5	363.2	1,138.50	1,138.30
Long-term loans and Finances (including current portion)	439.2	382.2	334.1	317.5
Net Investment In finance lease (including current portion)	0.6	0.4	0.4	0.4
Deferred Tax Assets	69.2	78.3	74.1	71
Short-term investments	1,149.50	1,075.80	46.6	52.1
Mark-up/Interest Accrued	42.6	41.4	74.3	106.8
Prepayments and other receivables	5	3	3.2	5.1
Cash and Bank Balances	139	75.7	122.1	141.8
Other Assets	16	21.2	36.5	41.4
Total Assets	2,272.00	2,052.30	1,851.30	1,905.90
Long-term loan (including current portion)	78.1	15.6	-	-
Lease Liability (including current portion)	13.7	6.7	16.5	17.1
Total Borrowings	491.8	1,285.10	1,092.10	1,136.90
Short-term repo- borrowing	350	1,262.70	1,075.60	1,119.80
Other Liabilities	69.4	45.3	35.3	40.3
Total Liabilities	511.2	1,330.40	1,127.40	1,177.20
Total Equity (incl. deficit on re-measurement on investments)	750	721.8	723.9	728.7
INCOME STATEMENT	FY21	FY22	FY23	Q1'FY24
Net Mark-up Income	59.1	58.2	64	22.7
Non-Markup Income	20.8	8.2	24.1	3.1
Operating Expenses	62.9	68.2	86.4	23.3
Reversal / (Provision)	12.4	15.4	28.8	6.7
Finance Cost	65.1	67.6	191.2	63.2
Profit Before Tax	28.8	13.3	29.8	8.9
Profit After Tax	20.5	8.2	13	6.3
RATIO ANALYSIS	FY21	FY22	FY23	Q1'FY24
Gross Infection (%)	69.10%	76.80%	84.80%	89.20%
Provisioning Coverage (%)	68.90%	66.20%	59.40%	58.70%
Net Infection (%)	41.00%	52.80%	69.30%	77.30%
Efficiency (%)	85.30%	96.00%	98.20%	92.70%
ROAA (%)	1.00%	0.40%	0.70%	1.30%
ROAE (%)	2.80%	1.10%	1.80%	3.50%
Leverage (x)	0.68	1.84	1.56	1.62
Gearing (x)	0.59	1.78	1.51	1.56
Liquid Asset to Total Liabilities (x)	3.18	1.1	1.08	1.06

**Annualized*

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			
	02/26/2024	A	A-2	Stable	Reaffirmed	
	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	Dec 19, 2023			
	Syed Mohsin	Chief Executive Officer	Dec 19, 2023			