



The Pakistan Credit Rating Agency Limited

RATING REPORT

FIRST CAPITAL INVESTMENTS LIMITED

	NEW [Nov-16]	PREVIOUS [Nov-15]
Asset Manager Rating	AM4++	AM4++
Outlook	Stable	Stable

NOVEMBER 2016

Profile & Ownership

- First Capital Investments Limited (FCIL), incorporated in Oct-94, an unlisted company, commenced operations in 1995. During the year, the company undertook an exhaustive exercise whereby policies and manuals for all key functions have been documented inline with the regulator’s requirement. After the review, SECP has issued a license to company to undertake Asset Management Service as required under the NBFC (Establishment and Regulation) Rules, 2003.
- FCIL is sponsored by First Capital Securities Corporation Limited (FCSC) – the holding company of First Capital group. FCSC alongwith the directors and other family members holds 87% shareholding. Mr. Sulieman Ahmed Said Al-Hoqani – an Omani Investor – holds a strategic stake of 9.2% in FCIL. The other major shareholders comprise financial institutions.

Governance & Management

- The Board of Directors comprises four members, including the CEO – a group representative. The remaining three members including the chairman are independent. During the year, Syed Nadeem Hussain has been appointed as the new Chairman of the board in place of outgoing chairman Mrs. Amna Taseer. Syed Nadeem Hussain is the former CEO and president of Tameer Microfinance bank.
- During the year, Mr. Imran Hafeez has been appointed as the new CEO of FCIL. He is currently also working as the group director finance for the First Capital Group.
- The company operates through eight departments: The staff strength and organizational architecture of the company is satisfactory with the quantum of business. However, taking cognizance of FCIL’s expansion plans retention of key management resources alongwith strengthening through induction of resourceful team members would be critical.

Assessment

- FCIL presently has a single fund under its management – First Capital Mutual Fund (FCMF) an open-end equity fund. The fund’s AUM growth of ~9% is less than the industry’s growth of ~16% resulting in a slight contraction in its very low system share (Sep16:0.03%, Dec15:0.04%). The fund has high unit holder concentration with top 10 representing ~90% of the fund size.
- The management plans to enhance its product slate with the launch of an income fund and a shariah compliant equity fund. The management is also applying for a license for a REIT – to meet the relevant criterion to get the license sponsor is agreed to inject equity. The planned REIT scheme would be a Hybrid REIT Scheme.

Sales & Marketing

- Currently with the limited scale of operations the company’s marketing department comprises one individual. In the initial phase, the management plans to enhance its AUM base by targeting intuitional investors capitalizing on the groups’ relationships.
- Keeping in view the business plan the company targets to hire a marketing manager, sales manager and sales representatives. With an intention to enhance its investor base the company plans to establish its presence in big cities in the form of branches and counters in group offices, reputable banks and insurance companies.

Investment Decision Making

- FCIL has an adequately structured investment decision making process; inline with its limited fund slate and AUM base. The Investment Committee (IC) comprises three members: a) CEO, b) CFO, and c) the fund manager.
- Going forward, the management plans to change the traditional conservative investment policy with a mix of both passive and active trading portfolios. This would enable them to generate competitive returns among their peers.

Risk, Compliance & Internal Audit

- The Risk Management & Compliance Department (RMCD) comprises one individual. FCIL has developed a detailed policy manual aimed at managing operational, market and liquidity risks. The compliance function falls within the purview of the Risk & Compliance Manager. Standard daily compliance sheet, listing various regulatory & company policy requirements, is prepared.
- The in-house single member internal audit department oversees controls of core business areas and reports to the Audit Committee on a quarterly basis.

Technology & Investors Services

- FCIL has outsourced its back office services to IT Minds – a subsidiary of CDC. The company has a reasonably user-friendly website.

RATING RATIONALE

The rating recognizes the company’s adequately experienced management team and satisfactory structured investment process in line with limited scale of operations. The rating incorporates management’s concerted efforts towards sustaining its operations while making strides towards expansion of AUMs and fund slate (currently managing one fund only). The successful execution of business plan with the appointment of new CEO would remain imperative in strengthening the company’s position in the domestic AMC industry. Furthermore, the company intends to start new venture - applied for a REIT License. This envisages the company’s intention to take benefit from the expertise of company’s sponsor in the real estate business.

KEY RATING DRIVERS

The rating remains dependent on achieving sizeable growth in AUMs while diversifying the fund slate. Meanwhile, upholding high governance standards and exercising vigilance with reference to the control environment is crucial. Continued demonstration of good performance by the fund is also critical.

INDUSTRY SNAPSHOT

During 9MCY16 the AMC industry observed a healthy growth of ~16% in the overall AUMs. The growth was primarily driven by sound performance of the domestic stock market showing an uptick of ~25% during the period. The performance of the stock market alongwith fresh influx resulted in substantial increase in the asset base of equity funds (~26%) increasing their system share. The increase in the number of funds mainly in the asset allocation and active allocation categories also resulted in the fresh inflows of AUMs. The continuity in the low interest rate environment causing a low attractiveness for the money market and income fund categories resulted in a net outflow of AUMs. Going forward, the innovation in the product slate alongwith the performance of the capital market would remain beneficial for the AUM growth of the industry.

Financial Summary: First Capital Investment Company								
Sr. #	Fund	Category	Asset Under Management		Return FY16	Benchmark Return FY16	Top 20 Investor Concentration	Performance Ranking(Jun-16)/ Stability Rating
			Sep-16 (rupees in mln)	Sep-15 (rupees in mln)				
1.	First Capital Mutual Fund	Equity	195	210	6.97%	9.84%	92%	2 Stars

RATING SCALE & DEFINITIONS: Asset Management Industry

These ratings/rankings are not a recommendation to buy, sell, or hold any investment, in as much as they do not comment as to the yield or suitability for a particular investor. Eventually the risk/reward trade-off should be determined solely by investors

ASSET MANAGER RATINGS

AM1: Very high quality

Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.

AM2++, AM2+, AM2: High quality

Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.

AM3++, AM3+, AM3: Good quality

Asset manager meets investment management industry standards and benchmarks.

AM4++, AM4+, AM4: Adequate quality

Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.

AM5: Weak

Asset manager does not meet the minimum investment management industry standards and benchmarks.

+ = (Plus)

++ = (Double Plus)

FUND STABILITY RATINGS

AAA(f)

An exceptionally strong capacity to maintain relative stability in returns and possesses negligible exposure to risks.

AA+(f), AA (f), AA-(f)

A strong capacity to maintain relative stability in returns and possesses low exposure to risks. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions

A+(f), A (f), A-(f)

A fund with stable performance generally in line with its peers with adequate capacity to respond to future opportunities or stress situations.

BBB+(f), BBB (f), BBB-(f)

An adequate capacity to maintain relative stability in returns and possesses high exposure to risks. This capacity may be impacted adversely by changes in circumstances or in economic conditions.

BB+(f), BB (f), BB-(f)

A low capacity to maintain stability in returns and possesses very high exposure to risks

B(f)

A very low capacity to maintain stability in returns and possesses very high exposure to risks.

The fund stability rating scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings.

FUND PERFORMANCE RANKINGS

5-Star Very good performance

4-Star Good performance

3-Star Average performance

2-Star Below average performance

1-Star Weak performance

CAPITAL PROTECTION RATINGS

CP1

Very strong certainty of capital protection.

CP2+ CP2

Strong certainty of capital protection.

CP3+ CP3

Good certainty of capital protection.

CP4+ CP4

Adequate certainty of capital protection.

CP5

Weak capital protection.

Rating Watch: Alerts to the possibility of a rating change subsequent to, or in anticipation of some material identifiable event. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

Rating Outlooks: Indicates the potential and direction of a rating in response to a) trends in economic and/or fundamental business/financial conditions and/or deviation from expected trend. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Being based on actual performance, no Outlook or Rating Watch can be assigned to fund performance rankings.

Suspension: It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.

Withdrawn:

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity or c) the rating remains suspended for six months or d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.



Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity
Sector
Type of Relationship

First Capital Investments Limited
AMC
Solicited

Purpose of the Rating

Regulatory Requirement

Rating History

Dissemination Date	Asset Manager Rating	Outlook	Action
-	AM4++	Stable	Maintain
8-Jun-16	AM4++	Stable	Harmonize
3-Dec-15	AM4+	Stable	Maintain
6-Dec-14	AM4+	Stable	Maintain
8-Apr-14	AM4+	Rating Watch	Maintain
7-May-13	AM4+	Rating Watch	Maintain
25-May-12	AM4+	Stable	Maintain
27-Jun-11	AM4+	Rating Watch	Maintain

Related Criteria and Research

Master Methodology:
Specific Methodology:
Research:

Asset Management Rating Methodology [2016]
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Asset Management Sector Review [2016]

Rating Analysts

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Rating Team Statement

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the

security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer.

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter;

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