



The Pakistan Credit Rating Agency Limited

FIRST FIDELITY LEASING MODARABA

	NEW [MAR-17]	PREVIOUS [SEP-16]
Long-Term	BBB+	BBB+
Short-Term	A2	A2
Outlook	Stable	Stable

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MARCH 2017

Profile & Ownership

- First Fidelity Leasing Modaraba (FFLM) is a perpetual, multipurpose modaraba founded in 1991.
- Listed on Pakistan Stock Exchange
- Engaged in Islamic mode of leasing and term financing under morabaha. Additionally, the Modaraba has developed a portfolio of investment properties, both land and building.
- Modaraba's assets also include membership of Pakistan Stock Exchange (PSX) and Pakistan Mercantile Exchange Limited (PMEX)
- Fidelity Capital Management (Private) Limited (FCML) is the management company of FFLM.
- FCML is majority owned by Mughals Imperial (Pvt.) Ltd and two individuals (60%), whereas Chief Executive Officer (18%) of the Modaraba and his associates (22%) owned the rest of the share .
- FCML has 22% stake in the modaraba while 67% is owned by general public .

Governance & Management

- BoD comprises four members including the CEO of FFLM.
- Three board committees in place to closely monitor the management policies and operations.
- Experienced BoD comprising non-executive members and is being associated with the board since long.
- CEO has valuable experience and expertise of overall 33 years in financial sector.
- Adequate organizational structure consist of mainly three departments (i) Credit & Administration, (ii) Internal Audit & Risk Management, and (iii) Accounts & Finance.

Risk Management

- Sizeable NPLs amount of PKR 358mln impacting the asset quality (NPL's to Gross Advance ratio 2HFY17: 99%; FY16:98%; FY14:76%).
- NPL's addition is yet unprovided due to adequate availability of security, however, potential drag on equity remains low (2HFY17: PKR 328mln; FY16: PKR 332mln; FY15: PKR 342mln).
- Owing to significant portion invested in non-earning/illiquid assets, liquidity constraint continue to impact risk profile of the Modaraba.

Performance

- During 2HFY17, Morabaha and Ijarah financing witnessed a significant decline of 44% QoQ basis reporting at PKR 5mln in total.
- FFLM financing book only comprises 5mln Ijarah financing, resulting deteriorating revenue positioning (2HFY17: PKR 1mln; FY16: PKR 2mln; FY15: PKR 7mln).
- Continued operating expenses and lack of major recoveries led to a net loss of PKR 4 mln.
- FFLM has a exposure of PKR 204mln in Enplan Tower – an eighteen storey under-construction building in the form of the ground floor
- Progress is going on to sell that floor and management making continuous efforts and are positive about it.
- Expansion in the Modaraba's financing operations are dependent upon sale of Enplan, going forward.
- Reduction in Enplan market value may result in loss and in turn the performance of the Modaraba in future.

Financial Risk

- FFLM funding mix consists of equity primarily (Equity to Total Assets Ratio 2HFY17: 93% same as FY16).
- FFLM has maintained equity base.
- The Modaraba is debt free; No intentions to raise debt in future.

RATING RATIONALE

The ratings reflect adequate financial profile of FFLM supported by its equity based capital structure. However, resultant benefits have been limited due to stressed asset structure. FFLM's asset base largely comprises non-earning assets (96% at end-Dec16) mainly less liquid investment property - Enplan - and sizeable net non-performing advances. This, while exhibiting weak earning profile of the Modaraba, kept the Modaraba's performance under pressure (loss for the periods, 2HFY17: 4mln; 2HFY16:11mln). Although the management is progressively making efforts to liquidate its exposure in "Enplan". Persistent delays constrained the performance of the Modaraba.

KEY RATING DRIVERS

The ratings are dependent on timely liquidation of investment in "Enplan". For which management is progressively making efforts to bring back Modaraba to its core business. The ratings also depend upon management's ability to envisage a business plan for the Modaraba. This strategy, at minimum, should help overcome continuing losses. Any significant decline in its value, resulting in erosion in equity, would have negative implications for the ratings. Meanwhile, any debt acquisition should be considered carefully.

INDUSTRY SNAPSHOT

- 25 Modarabas
- Intense competition from established financial institutions (FIs) owing to small network and similar nature of products being offered by these FIs.
- Draft Regulations 2015, 2016 Draft Amendments in Modaraba Rules 1981, and 2016 Draft Modaraba Amendments Bill circulated by SECP.
- Restriction on issuance of COIs in Draft Modaraba Amendments Bill circulated by SECP.



First Fidelity Leasing Modaraba

PKR mln

BALANCE SHEET	30-Dec-16	30-Jun-16	30-Jun-15	30-Jun-14
	1HFY17	Annual	Annual	Annual
Assets				
Earning Assets	17	21	102	111
Morabpa Financing	-	-	74	66
Assets given on Ijarah	5	9	16	23
Equity Investments	6	6	6	6
Non Earning Assets	336	336	265	265
Investment Property	224	224	224	224
Non-Performing Finances	358	359	281	289
<i>Less: Accumulated provision (specific/prudenti.</i>	(263)	(264)	(266)	(269)
Total Assets	353	357	367	376
Liabilities				
Other Liabilities	24	25	26	27
Equity				
Total Equity	328	332	342	349
INCOME STATEMENT				
Gross Revenue	1	2	7	21
Total Net Revenue	1	2	7	35
Operating Expenses	(5)	(14)	(17)	(18)
Net Income /(Loss)	(4)	(10)	(7)	4
Ratio Analysis				
Cost-to-Total Net Revenue	391.2%	625.3%	249.5%	51.2%
Equity / Total Assets	93.2%	92.9%	93.0%	92.8%
Impaired Lending / Gross Finances	98.7%	97.7%	75.8%	76.5%
Loan Loss Provisions / Impaired Lending	73.4%	73.5%	94.7%	92.8%

First Fidelity Leasing Modaraba

Mar-17



STANDARD RATING SCALES & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>High credit risk.</p> <p>A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.</p>	
D	<p>Obligations are currently in default.</p>	

Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. 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’.

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, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Regulatory and Supplementary Disclosure

Rated Entity

Name of Rated Entity
Sector
Type of Relationship

First Fidelity Leasing Modaraba
NBCs and Modaraba
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook
22-Sep-16	BBB+	A2	Stable
22-Sep-15	BBB+	A2	Stable
12-Dec-14	BBB+	A2	Stable
06-Dec-13	BBB+	A2	Stable
5-Apr-13	BBB+	A2	RW

Related Criteria and Research

NBFCs and Modaraba - Viewpoint | Mar 17

Methodology:

Non-Banking Finance Companies

Rating Analysts

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Rating Team Statement

Rating Procedure

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.

Disclaimer

Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

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The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

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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

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

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

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Probability of Default (PD)

PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past.