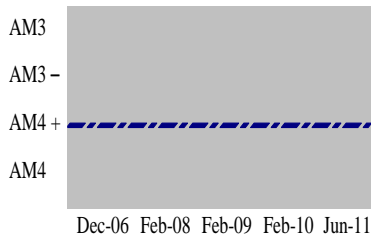




## RATINGS (JUNE 2011) FIRST CAPITAL INVESTMENTS LIMITED (FCIL)



### RATING HISTORY



### ASSETS UNDER MANAGEMENT

Amount in PKR mln

Funds	Size	
	Jun-11	Jun-10
FCMF	253	231

### ANALYSTS

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### RATING RATIONALE AND KEY RATING DRIVERS

- The rating reflects FCIL's small but experienced management team, adequately structured investment process reasonably aligned to limited scale of operations and size of funds. The rating incorporates management's enhanced focus towards upgradation of IT infrastructure and developing processes to strengthen overall investment management platform.
- The rating is dependent upon the sustained competencies of the company in the wake of increasingly tough operating environment. Moreover, planned diversification of the fund slate, with regulatory approval to manage open-end funds, would have a positive bearing on the rating. The continuous support from the sponsoring group would also be imperative.

### ASSESSMENT

- First Capital Investments Limited (FCIL), incorporated in October 1994, commenced operations in early 1995. The company is registered as an Asset Management Service under the Non-Banking Finance Companies (NBFC) Regulations. FCIL is sponsored by First Capital Securities Corporation Limited (FCSC) – the holding company of First Capital group – with 77% shareholding. The main sponsors of the group include Mr. Sulieman Ahmed Said Al-Hoqani – an Omani investor – and Taseer family and associates.
- FCSC, listed on all three bourses – manages group's interests in insurance, media, and real estate sectors. Over the recent years, the group has built Real Estate as its key focus. After the sad demise of Mr. Salman Taseer, Mrs. Amna Taseer has been elected as Chairman of the board. The three-member Board of Directors of FCIL mainly represents experienced professionals holding executive positions in the group companies. The CEO of FCIL, Syed Kashan Kazmi, is associated with the group since 1999. He is an MBA, and prior to joining FCIL in September 2009, was heading the Treasury Department in First Capital Group.
- FCIL's equity stand at PKR 113mln at end-Mar11. The equity barely meets the minimum capital requirement as per revised NBFC regulations (end-Jun11:PKR100mln). Meanwhile, the company plans to issue right shares in near term to comply with minimum capital requirement of PKR150mln at end-Jun12.
- FCIL's only fund under management – First Capital Mutual Fund Limited (FCMF) – was launched in Mar 1995. This is a closed-end equity fund, having a relatively modest size. The majority of the fund's assets (59%) are invested in listed equity securities with major exposure to chemicals (16%) and electricity (9%) sectors. The remaining assets are invested in highly liquid Government securities. During 9MFY11, FCMF underperformed its benchmark (KSE-100) as well as against its peers (equity category) attributed to conservative appetite. Though the unit-holding pattern is concentrated, comfort can be drawn from the close-end nature of the fund. Further significant group contribution (68%) will limit the redemption pressure during conversion of the fund from close-end to open-end.
- FCIL is in the process to re-establish its investment advisory agreement with associated company, subject to necessary permission from SECP. Moreover, the company is pursuing other corporate entities in order to provide investment advisory services, though as yet no major development has been seen.
- The company's Asset Management Company license for managing close-end fund expired in September 2010 and is currently in the process of renewal from SECP. In line with its medium-term strategy, FCIL plans to launch an income open-end fund, First Capital Government Securities Fund, for which the company is seeking a license from SECP. However, the relative success and timeline of this initiative remains to be seen.
- The company currently has 11 employees with three executives including CEO. The human resource base is considered adequate given small size of the company and limited scope of operations. FCIL has significantly high reliance on its group support in the investment decision making process as well as different operational matters, development of IT systems, and other administrative support. This has an impact on the relative standing of the company in terms of asset management capabilities, as the sector comprises assets managers having standalone sound infrastructure.
- FCIL has a clear and defined investment process. During the year, the CIO resigned from the company. The Investment Committee now comprises only two members – 1) CEO and 2) Director FCMF, Mr. Omar Subhan Salamat, carrying diversified experience in portfolio management. The IC meets at least twice a month to take major portfolio-related decisions, and monitor funds' performance. A research analyst may also be called to attend the meeting but is not a permanent IC member. However, there still remains concentration in decision making process. The research team comprising three analysts is currently led by the CEO.
- The company has an in-house internal audit department; headed by a recently engaged individual, having four years of experience in the local industry. The division has additional responsibility to ensure compliance and risk management. The company uses recently acquired software system – AppXS – for portfolio management and general accounting requirements.

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