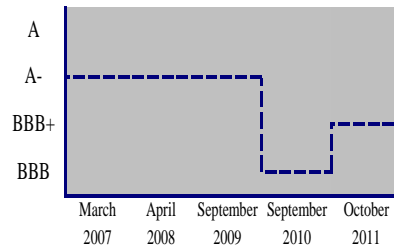




RATINGS (OCTOBER 2011)

FIRST FIDELITY LEASING
MODARABA (FFLM)

| ENTITY | NEW | PREVIOUS |
|------------|------|----------|
| Long Term | BBB+ | BBB |
| Short Term | A2 | A3 |



FINANCIAL DATA

PKR (mln)

| | 31-Mar-11* | 30-Jun-10 |
|------------------|------------|-----------|
| Total Assets | 432.9 | 432.9 |
| Ijarah Assets | 28.5 | 44.4 |
| Musharika Assets | 50.0 | 50.0 |
| Modarbah Assets | 90.3 | 67.9 |
| Equity | 323.4 | 325.0 |
| Gross Profit | 19.2 | 32.2 |
| Profit after Tax | (1.6) | (11.8) |
| Equity /Assets % | 74.7 | 75.1 |
| ROE** | (0.7) | (3.6) |
| ROA** | (0.5) | (2.7) |

* Based on unaudited accounts for Nine months.

**These numbers has been annualized for comparison purpose.

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect an improvement in the financial profile of the Modaraba, an outcome of sale of an investment property. This enabled the Modaraba to settle its major debt obligation, previously subject to timing mismatch. Although FFLM has not experienced a significant upturn in its business activities, the loan repayment would significantly lower the finance cost, reducing pressure on the Modaraba's bottomline. With equity based capital structure, FFLM's overall risk profile remains low.
- The ratings are dependent on the management's ability to monetize its investments in the real estate segment in a timely manner to avoid undue pressure on its financial profile. Meanwhile, in the wake of muted growth in the stable income stream, acquisition of new borrowings has to be looked carefully. At the same time, any material deterioration in the Modaraba's asset quality impacting the risk absorption capacity would have negative implications.

ASSESSMENT

- During FY10, FFLM maintained a conservative stance towards lending, resultantly its Ijarah and Morabaha financing portfolio witnessed considerable reduction. Hence, FFLM experienced sharp decline in its gross revenue. Furthermore, impairment on its equity investments (PKR 10.8mln) and provision for non performing portfolio (PKR 5.6mln) resulted in a negative bottomline for the second consecutive year. During 9MFY11, the Modaraba, while continuing the declining trend in its Ijarah book, experienced expansion in its morabaha financing. This is mainly attributed to an advance made to Enplan (Pvt.) Limited to complete its real estate project. Meanwhile, musharika facility of PKR 50mln already given to Enplan matured during Aug-10; therefore income accrual, though not yet settled, on this has stopped. Consequently, despite reduction in depreciation and operating expenditures, FFLM could not register a positive bottomline during 9MFY11. During last quarter of FY11, FFLM managed to realise significant capital gain (PKR 34mln) on sale of one of its property investment – Shafi Mansion. This has not only generated net income for FY11, but has helped the Modaraba in settling major portion of its borrowings (PKR 50mln) during the same period.
- Going forward, the management plans to continue its cautious lending approach due to subdued operating environment. Furthermore, FFLM's main focus would be on liquidating its other property investments (book value FY11: ~PKR 68mln). However, owing to suppressed market conditions, the extent to which FFLM succeeds in executing its plan in a timely manner remains a challenge.
- FFLM maintains good asset quality though some fresh infection has crept in the recent period. Meanwhile, the chronic non-performing loan book is fully provided, and the management does not foresee any significant recoveries. The fresh infection is secured against sound collateral and may be recovered without difficulty. Musharika agreement with Enplan for PKR 50mln expired on August 31, 2010. However, the principal repayment alongwith profit of PKR 49mln was not made. Consequently, a settlement agreement among FFLM, Trust Investment Bank Limited (TIBL) – another major lender in Enplan – and Enplan has been executed. According to which, both FFLM and TIBL would provide further financing of PKR 35mln each for the completion of the construction activity. This lending carries a markup of one year Kibor plus 2.5%. As per the agreement, extension has been given to Enplan for the repayment of PKR 99mln till December 2012, the timeline required to complete the building as per revised plan.
- FFLM's investment book, comprising ~32% of the total assets' base at end-Mar11, consists of (i) equity portfolio (ii) properties. The former is mainly represented by FFLM's investment in Shakarganj Mills Limited, now fully reduced to its market value. The latter consists of a combination of land and building. Currently, these properties are not generating income, and the management plans to dispose them in order to generate cashflows. Other significant investments of the Modaraba are its brokerage seat at Islamabad Stock Exchange and membership of National Commodity Exchange Limited. Owing to insignificant revenue income being generated through these investments, the management may sell these investments upon availability of good opportunity.
- FFLM predominantly has an equity based capital structure with an equity-to-total-asset ratio of 75% at end-Mar11. Going forward, FFLM plans to keep its leveraging limited.

PROFILE

- FFLM, listed on all the three stock exchanges of the country, was established in 1991 and is managed by Fidelity Capital Management (Pvt.) Limited. While the Modaraba operates principally through its head office in Lahore, it has a branch in Islamabad. The Chief Executive of the Modaraba and his associates hold the majority shareholding in the management company of the Modaraba.
- The board of directors, chaired by Mr. Siyyid Tahir Nawazish, comprises five members including the Chief Executive Officer. The CEO, Mr. Wasim-ul-Haq Osmani, a Chartered Accountant with extensive experience in the financial sector, has been with the Modaraba since 1994.