

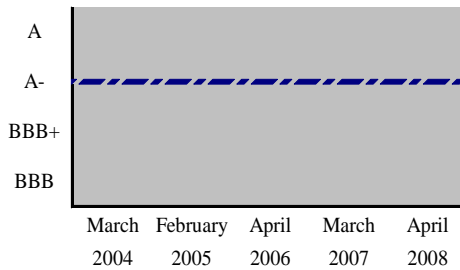
## FIRST FIDELITY LEASING MODARABA (FFLM)

### RATINGS (APRIL 2008)

#### FIRST FIDELITY LEASING MODARABA

	NEW	PREVIOUS
<b>ENTITY</b>		
Long Term	A-	A-
Short Term	A2	A2
<b>PROPOSED SUKUK</b> (PKR 200mln)	A	-

### LONG TERM ENTITY RATING – HISTORY



### FINANCIAL DATA

#### PKR (MLN)

	30-Jun-07	30-Jun-06
Total Assets	501.30	577.47
Equity	348.72	342.36
Profit after Tax	33.21	27.83
ROA %	6.16	4.49
ROE %	9.61	8.16
Equity/Assets %	69.56	59.29

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### SUKUK ISSUE

FFLM intends to issue its first rated *Sukuk* of PKR 200mln in the near-term for a tenure of 5 years. The profit payment is based on six months KIBOR plus 225bps with no floor and a cap of 13%. The principal repayment is in 6 equal semi-annual instalments payable after a grace period of two years. The issue is secured by hypothecation over unencumbered *Ijara* assets/current assets of the company plus 25% margin and through an exclusive charge by way of equitable mortgage of immovable property plus 25% margin.

### RATING RATIONALE & KEY DRIVERS

- The ratings reflect FFLM's low leveraged capital structure and good asset quality. Although the management plans to expand its *Musharika* business mainly relating to development projects, it intends to keep its contribution towards the total assets limited. At the same time, with the ongoing restructuring of Modaraba's asset base its performance is expected to improve.
- The ratings are dependent on the timely implementation of the management's strategy resulting in improved core performance. Meanwhile, any significant increase in leveraging, leading to mismatch amongst assets and liability classes, also resulting in interest rate risks or deterioration in the asset quality could have negative implications for ratings.

### ASSESSMENT

- The ownership structure of the Modaraba management company experienced a major change in FY07. Now, mainly a group of individuals, including the Chief Executive Officer of the Modaraba, owns the majority stake. Since the change in ownership, the management made concentrated efforts to consolidate the Modaraba's balance sheet. The main focus was to liquidate / restructure the non / low earning assets in favour of high yielding sources. In this regard, while settling a few stuck up accounts, the management is also selling its brokerage seat (of Lahore stock exchange) and other related assets. The redeployment of these cash flows in better earning avenues is expected to supplement FFLM's revenues, going forward.
- During FY07, with management's focus on consolidation, overall finances portfolio, in turn, gross revenue, experienced substantial decline. Meanwhile, marginal reported improvement in the net income was largely a function of reversal in provisioning. However, the management's reprofiling efforts have started bearing fruit as reflected by improving performance in 1HFY08.
- Going forward, the management, while adopting a conservative stance towards risk, intends to modestly expand its leasing book. In this regard the management intends to focus on offering customized solutions to mainly medium-sized entities. The major growth would be achieved through *Musharika* financing mainly to real estate or related businesses. Herein, though the average transaction size would be large (c. PKR 50mln), the associated risks would be managed through comprehensive pre-financing evaluation and regular onward monitoring. The management is not hard pressed for achieving aggressive growth and financing would only be made if the proposal is within acceptable risk parameters. Moreover, cognizant of associated risks, the management, over the medium term, intends to restrict the real estate financing book maximum upto the level of its traditional leasing book. Recognizing relatively inherent risk with most real estate projects, this is a conscious decision on the part of the management. This would help the Modaraba to better manage its borrowings from relatively stable repayment pattern of leasing book. The initial arrangements regarding the execution of the said strategy have taken place, however, the likely time frame regarding the outcome of these steps is critical.

■ FFLM maintains good asset quality with limited fresh infection in recent years. The chronic non-performing loan book is fully provided, and the management does not foresee any further recoveries. Currently, FFLM's credit exposure is mainly in the form of leasing. Vehicle leasing continues to dominate FFLM's lease book, and its proportion increased to 78% in the total leased assets at end-FY07. However, given the lower default rates, relative ease of repossession and disposal provide lower risk exposure to the Modaraba. The Modaraba's focus on vehicle leasing has also been instrumental in reducing the sectoral and client-wise credit concentration.

■ Given the Modaraba's cautious approach towards growth and existing scale of operations, it does not maintain a large funding base. Considering that FFLM is envisaging gradual growth, the gearing is unlikely to increase substantially.

### 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 also has branch in Islamabad. During FY07, a group of individuals comprising Chief Executive of the Modaraba and his associates acquired the majority shareholding of the management company of the Modaraba.

■ The board of directors of the management company comprises five members including the Chief Executive Officer. The CEO, a Chartered Accountant with extensive experience in the financial sector, has been with the Modaraba since April 1994. The other members also have substantial financial market experience. While the overall control of the Modaraba rests with the board, the Chief Executive Officer directly looks after the operations of the Modaraba.