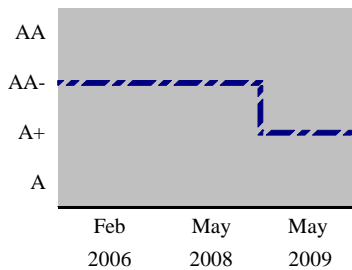


## RATING (JUNE 2009)

### FINANCIAL RECEIVABLES SECURITIZATION COMPANY LIMITED (FRSCL)

	New	Previous
<b>Securitized TFCs</b> (Total: PKR 700mln)		
Class 'A' (PKR 550mln)	A+	AA-
Class 'B' (PKR 150mln)	A+	AA-

## LT RATING HISTORY



## ANALYSTS

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## THE ORIGINATOR

Incorporated in 1995, JS Investments Limited (JSIL) is the leading private sector asset management company in Pakistan. It is a subsidiary of Jahangir Siddiqui and Company Limited (JSCL) - 52% shareholding at end-Dec08. Starting as a traditional securities firm, JSCL now functions as a holding company for JS Group, mainly for its interest within the financial sector. JS Group operates in financial sectors such as asset management, financial advisory services, brokerage and banking. The Group also has investments in major industries namely textiles, fertilizer, technology & media, commercial real estate, energy & natural resources, and aviation. JSIL went public on March 21, 2007 with some members of the JS family divesting a portion of their holding through an offer for sale.

## TRANSACTION STRUCTURE

- Financial Receivables Securitization Company Limited (FRSCL) is a bankruptcy remote special purpose vehicle (SPV) incorporated under the Companies (Asset Backed Securitization) Rules, 1999. The SPV has acquired the right to receive the management fee receivable by JSIL on account of providing investment advisory and asset management services to mutual funds (3 closed-end and 3 open-end funds with total net assets of PKR 6,058mln and PKR 8,188mln at end-Mar'09, respectively)<sup>1</sup>. The transaction between JSIL and FRSCL was a true sale.
- The SPV has generated the funds required to acquire the right to receive fees by issuing TFCs, Class 'A' listed certificates of PKR 550mln, Class 'B' listed certificates of PKR 150mln and Class 'C' privately placed certificates of PKR 2.50mln. The TFCs were issued in January 2007. They have a tenor of 7 years with floating coupon payable semi-annually. The listed TFCs (Class A & B) carry interest at the rate of 6-month KIBOR plus 2.0% with a floor of 8.0% and a cap of 16.0%. The principal for Class 'A' is being redeemed in equal semi-annual instalments that began after a grace period of 1 year, in July 2008. Class 'B' certificates have a grace period of 3 years. The SPV has a partial or full put option on JSIL for Class 'B' certificates of PKR150mln exercisable on every semi-annual repayment date. Class 'C' TFCs are subordinate to other classes and the principal will be repaid at maturity. The interest on Class 'C' will be paid out of the amount available with the SPV as a result of differential, if any, between the interest charged for Class 'A' & 'B' calculated at the cap rate and actual incidence of interest, subject to a maximum of 35% per annum.

## ASSESSMENT

- The asset management industry has witnessed substantial decline in AUM during the recent crises. In line with decline in industry AUM, JSIL also witnessed substantial decline in overall AUM, including the securitized funds, and consequently lower management fee revenue. However, despite the sharp decline in AUM, the cash flows from securitized funds are considered strong enough to enable FRSCL to fulfill its obligations to the TFC holders. Meanwhile, considering the pressure on the financial profile of the originator and the cash flows accruing to the TFC holders, the rating of TFCs is being adjusted to A+ (Single A Plus). The rating implies a low expectation of credit risk emanating from a strong capacity for timely redemption of TFC obligations. This opinion is based on evaluation of various risk factors as summarized below:
- Performance Risk:** JSIL, the originator, enjoys a leading position in the asset management industry. However, the company's financial profile has come under pressure during the recent crises, due to substantial decline in AUM leading to suppressed management fee revenue. Despite the pressures in the operating environment leading to drying up of revenues, the company has managed to keep its asset management infrastructure intact. The company's asset manager rating of 'AM2+' reflects a very strong capacity to manage the risks inherent in asset management. The rating is an outcome of the company's quality human resource base and superior quality of its systems and processes as compared to most peers. Performance prospects of the company largely depend on the revival of the asset management industry. This includes i) improvement in operating environment ii) revival of stock and money markets and iii) renewed investor confidence in the industry. This would also ensure JSIL's ability to continue to generate adequate funds in the future to fund its TFC obligations.
- Cash flow Generation Risk:** The quantum of fees from funds is exposed to downward risk, mainly arising from the core nature of funds' operations, which involves exposure to market risk. Open-end funds, additionally, are also exposed to redemption risk, wherein unit holders may redeem units reducing a fund's net assets. The AUM of open-end securitized funds, mainly JS Income Fund, reduced significantly during the recent crises. Owing to meltdown in stock market and redemption pressure on income funds, the rate of fee charged for management of funds may also come under pressure. Although coverages have declined, sufficient cushion is available to meet the TFC obligations. Moreover, any major decline in AUM from the current level seems unlikely. In view of this, FRSCL is better able to withstand the consequent impact on cash flows. Investor concentration has increased significantly as compared to last year, wherein, any unusual liquidity need of any of these major investors may have substantial impact on the size of net assets, and, in turn, the fees. Going forward, with improvement in market conditions and renewed efforts to tap the retail segment, fund concentration, currently high, is expected to reduce.
- In order to assess the strength of the cash flows to service the obligations a conservative model has been developed using actual data up till end-Dec08 and projected data thereafter. The coverage for the installment based on the cash flows during a given period and reserve fund remains around three times (3x).
- Payment Risk:** The payment risk is minimal as the SPV has a more evenly distributed cash flow stream available to it from the securitized funds on account of fee being paid on a monthly basis. In order to ensure timely payment, a reserve fund mechanism is built in the structure. The reserve fund, equal to one upcoming installment, has been built by the SPV out of the proceeds of TFCs. The allocations to the Collection Account to pay the instalments are made out of fees received by the SPV. In case the coverage, based on projected fees, drops below 1.5times (1.5x), the trustee has a discretion to increase the collection build-up to meet the SPV's obligations. This serves as a continuing surveillance mechanism.
- Commingling Risk:** The mutual funds have been given irrevocable instructions to deposit the management fees directly, without any interference or involvement by JSIL, in exclusive accounts, jointly referred to as the Collection Account, opened with different banks specifically for this purpose. The trustee to the TFCs (Alfalah Securities (Pvt.) Limited) is managing the account exclusively.

<sup>1</sup> *Open-end Funds:* 1) Unit Trust of Pakistan (PKR2,832mln), 2) JS-Income Fund (PKR 5,011mln), 3) UTP Islamic Fund (PKR345mln)  
*Closed-end Funds:* 1) JS Value Fund (PKR1,213mln), 2) UTP Large Cap Fund(2,059mln), 3) JS Growth Fund(2,786mln)