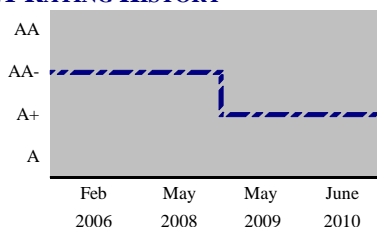


RATING (JUNE 2010)

**FINANCIAL RECEIVABLES
SECURITIZATION COMPANY
LIMITED (FRSCL)**

Securitized TFCs (Total: PKR 700mln)	New	Previous
Class 'A' (PKR 550mln)	A+	A+
Class 'B' (PKR 150mln)	A+	A+

LT RATING HISTORY



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THE ORIGINATOR

Incorporated in 1995 and listed in 2007, 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-Mar10. Starting as a traditional securities firm, JSCL now functions as an investment holding company for JS Group, mainly for its interest within the financial sector –asset management, advisory, brokerage and banking. The Group has investments in major industries namely textiles, fertilizer, technology & media, commercial real estate, energy and aviation.

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 6,145mln and PKR 4,112mln at end-May10, respectively)¹. 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, and would start redeeming from July 2010 onwards. 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 subdued socio-economic environment in the country hindered growth prospects of the asset management industry, with a majority of AMC's facing pressure in maintaining AUM. In line with the trend, JSIL witnessed substantial decline in AUM, including securitized funds, and consequently lower management fee revenue. Moreover, after the sharp decline in AUM in May10, the cash flows from securitized funds, if could not grow from current level would only just enable FRSCL to fulfill its obligations to the TFC holders, while taking away historically available cushion. However, FRSCL can also exercise a put option on the originator (JSIL) for TFC Class 'B' Holders to meet the payment obligations. This would enhance the cushion available for payment of TFC Class 'A' Holders installments. JSIL intends to provide support, if need arises. 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 one of the leading positions in the asset management industry. This is an outcome of JSIL's relatively superior systems and processes, an expanded product slate and strong franchise value. The company's financial profile came under pressure during the capital markets crisis beginning end-08, whereby there was a substantial decline in AUM and suppressed management fee. However, after the upturn in the stock market, JSIL has posted net profit of PKR 63mln for 9MFY10 (9MFY09: Loss of PKR 759mln), a significant improvement over comparative period. Nonetheless, performance prospects of the company largely depend on the revival of the asset management industry and its ability to regain growth in AUM. This includes i) improvement in operating and regulatory environment ii) Consistent performance of stock and money markets and iii) renewed investor confidence in the industry. This would ensure JSIL's ability to continue to generate adequate fees in the future to fund securitized 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 exposed to redemption risk, wherein unit holders may redeem units reducing a fund's net assets. The AUM of all open-end and close-end securitized funds decreased, but the most drastic reduction was seen in JS Income Fund, due to high redemption brought about by relatively high unit holder concentration, mainly in the wake of infection in the portfolio. Moreover, investment appetite has turned in favor of pure cash funds, which has led to further attrition in size of the company's income fund. Furthermore, projected coverages have substantially declined, eroding extra cushion available against the TFC obligations. Any further decline in AUM from current level would lead to FRSCL not generating sufficient funds to be able to meet its obligations. In view of this, FRSCL is weakly placed to withstand the consequent impact on cash flows. Going forward, JSIL needs to enhance its efforts to tap growth in AUM, while restricting any further reduction.
- Payment Risk:** The payment risk is nominal 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, although the fees being generated are shrinking. The allocations to the Collection Account to pay the instalments are made out of fees received by the SPV. Due to projected fee coverage falling below 1.5 times, the Trustee is keeping 100% of the fees since the past three months, while the excess fees are not being returned to JSIL, to increase the collection build-up to meet the SPV's obligations. This would ensure that sufficient fees are retained to pay the TFC holders' upcoming installments.
- 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 (Alfalal Securities (Pvt.) Limited) is managing the account exclusively, which mitigates the risk to a large extent.

¹Closed-end Funds: 1. JS Growth Fund - JSGF (formerly UTP Growth Fund), (2) JS Large Cap Fund – JSLCF (formerly UTP Large Cap Fund), and 3) JS Value Fund – JSVFL (formerly BSJS Balanced Fund)

²Open-end Funds: 1) Unit Trust of Pakistan (UTP), 2) JS Income Fund – JSIF (formerly UTP Income Fund), and 3) JS Islamic Fund – JSISF (formerly UTP Islamic Fund)