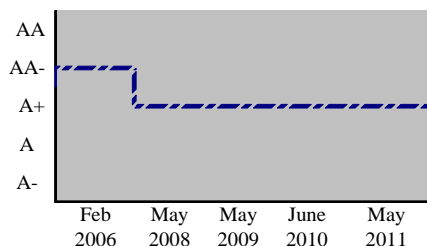


RATING (MAY 2011)
FINANCIAL RECEIVABLES
SECURITIZATION COMPANY
LIMITED (FRSCL)

| 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 (2 closed-end and 4 open-end funds with total net assets of PKR 4,589mln and PKR 4,456mln at end-Mar11, 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 2.5mln. 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% with a floor of 8% and a cap of 16%. 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 had a grace period of 3 years, and redemption started from July 2010. 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

- FRSCL's ability to meet TFCs holders' obligations is a function of management fee generated by securitized mutual funds of JS Investments Limited. The 2008 financial meltdown dampened investor confidence, with majority of AMC's facing pressure in maintaining AUMs in equity funds. In line with the trend, JSIL witnessed decline in AUM of securitized funds, and consequently lower management fee. Moreover, after the sharp decline in AUM in Sep10, the cash flows from securitized funds, if could not grow from current level, would only just enable FRSCL to fulfill its obligations to the TFCs holders, while taking away historically available cushion. However, FRSCL can also exercise a put option on the originator (JSIL) for TFCs Class 'B' Holders to meet the payment obligations. This would enhance the cushion available for payment of TFCs Class 'A' holders installments. JSIL intends to provide support, if need arises, also evidenced by JSIL's classification of SPV as debt on its books. 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, maintains an edge over most of its peers in terms of diversity of products offered, quality systems and processes, and strong franchise value. However, sharp decline in AUMs has impacted the fee earning capability of the company, thereby negatively impacting the company's performance. JSIL reported a net profit of PKR 8.7mln for 9MFY11, a significant decline over last year (9MFY10: Profit of PKR 63mln). Moreover, performance prospects of the company remains challenging considering volatility in fixed income & equity category alongwith subdued investor confidence. Nonetheless, the upturn in the stock market leading to improved performance of securitized funds depicted by 9MFY11 results, in order to enhance assets under management is considered positive. JSIL's five securitized funds outperformed their benchmarks during 9MFY11 as against only one in FY10. Going forward, persistence in the mentioned elements will ensure JSIL's ability to continue to generate adequate fees to fund securitized TFCs 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. This was due to significant redemptions brought about by relatively high unit holder concentration, mainly in the wake of infection in the fund's portfolio. JS Large Cap Fund suffered considerable investment loss on account of alignment with category regulations. Moreover, investment appetite has turned in favor of pure cash funds, which has led to further attrition in size of the company's equity funds. Furthermore, projected cash flows 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. 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 1.2 times, 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. Moreover, the company holds investment up to PKR 45.6mln in T-Bills & TDRs, generating incremental profits.
 - Commingleing 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 (Alfalsh Securities (Pvt.) Limited) is managing the account exclusively, which mitigates the risk to a large extent.

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

² Open-end Funds: 1) Unit Trust of Pakistan (UTP), 2) JS Income Fund – JSIF (formerly UTP Income Fund), 3) JS Islamic Fund – JSISF (formerly UTP Islamic Fund and) (4) JS Large Cap Fund – JSLCF (formerly UTP Large Cap Fund).