



First Fidelity Leasing Modaraba (FFLM)

Ratings (February 2005)

First Fidelity Leasing Modaraba

Entity	New	Previous
Long-term	A-	BBB+
Short-term	A2	A2

Financial Data

PKR (mln)

	30-Jun-04	30-Jun-03
Total Assets	422.8	438.8
Equity	250.6	252.9
Profit after Tax	18.3	31.7
ROA %	4.26	7.61
ROE %	7.28	12.74
Equity/Assets %	59.27	57.63

Analysts

Maimoon Rasheed
+92 42 5869504
maimoon@pacra.com

Shahzad Saleem
+92 42 5869504
shahzad@pacra.com

Rating Rationale

Assessment

- The ratings reflect FFLM's strengthened risk absorption capacity, mainly emanating from substantially improved asset quality and adoption of low risk growth strategy based on a low-leveraged capital structure. The ratings also take into account diversified sources of revenue, an outcome of recent acquisition of a brokerage business and focus on property investments, which are likely to add sustainability to income, going forward.
- During FY04, FFLM's performance – as measured by ROE – registered a decline mainly due to lower capital gains, higher operating costs and lower interest-based revenue. Net revenue, in addition to slight volume decrease in financing portfolio, declined due to substantially reduced IRR. The financial charges also declined in line with the low interest rate scenario but due to the Modaraba's predominantly equity based funding, the positive impact was restricted. Recently the size of FFLM has increased after the merger of First Hajvery Modaraba and Fidelity Securities (Pvt.) Limited with and into FFLM. The Modaraba is accruing some post merger benefits including fee-based income from its brokerage operations. While the impaired assets inherited from First Hajvery Modaraba are almost fully provided, the write back in certain cases could provide additional income to the Modaraba. Meanwhile, the rising trend in interest rates would have positive bearing on the Modaraba's IRR, which alongwith other sources of diversified income is expected to improve FFLM's profitability in the medium-term.
- Going forward, the management is targeting modest growth in finances with increasing focus on property investments. These investments, while establishing a sustainable source of rental income, also provide potential for capital appreciation. With regard to brokerage business, FFLM has a membership of both the Lahore and the Islamabad Stock Exchanges. Brokerage revenues are pre-dominantly contributed by the Lahore operations. Nevertheless, recently the Islamabad operations have also started making positive contribution. The management is planning volume expansion in the brokerage business through setting up more branches and targeting primarily corporate clients.
- With the increasing focus on vehicle leasing, this segment remains the largest contributor (57%) towards leased assets as at FYE04. The higher concentration has positive connotation, given the low default rates, relative ease of repossession and disposal, and stable resale value of auto leases. The Modaraba has been able to reduce its relatively higher exposure in textile sector, which has now come down to a comfortable level.
- The asset quality of FFLM has substantially improved during FY04 with impaired portfolio constituting around 7% (FY03: 58%) of the gross finances owing to settlement and restructuring of some chronic NPLs alongwith minimal fresh infections. Moreover, given the sizeable additional collateral, the uncovered exposure in relation to equity has come down considerably. Meanwhile, the critical NPL of two cement companies was also rescheduled during the year and is currently performing, thereby increasing the proportion of earning assets in the asset portfolio.
- The funding of FFLM remains predominantly equity based. The gearing, which had marginally increased in FY03, has declined during FY04. Going forward, the management plans to finance its property investments through the combination of bank credit lines and the Musharika deposits. However, as the management is not planning sizeable expansion in its asset base, the gearing is unlikely to increase substantially. The Modaraba carries substantial unrecognized appreciation in the investment in property and brokerage seats, which gives additional cushion to the risk absorption capacity.

Background

- FFLM, listed on all the three stock exchanges of the country, was established in 1991 and is managed by Fidelity Capital Management (Pvt.) Limited (FCML). Previously, FCML was a wholly owned subsidiary of Fidelity Investment Bank Limited. Recently, the ownership status of FCML has changed. Now Crescent Business Management (Pvt.) Limited (CBML) owns the management company. CBML is a part of the Crescent group and mainly serves as a holding company for the group's interest in various entities. The Crescent group is one of the well-known corporate groups in Pakistan with diverse interests both in manufacturing and financial services.
- The board of directors of FFLM comprises five members and the present chief executive is a chartered accountant with extensive experience in the financial sector. While the Modaraba operates principally through its branch in Lahore, it also has branches in Karachi and Islamabad.