



The Pakistan Credit Rating Agency Limited

Rating Report

First Fidelity Leasing Modaraba

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Sep-2020	BBB+	A2	Stable	Maintain	-
27-Sep-2019	BBB+	A2	Stable	Maintain	-
29-Mar-2019	BBB+	A2	Stable	Maintain	-
26-Nov-2018	BBB+	A2	Stable	Maintain	-
29-Jun-2018	BBB+	A2	Stable	Maintain	-
22-Sep-2017	BBB+	A2	Stable	Maintain	-
22-Mar-2017	BBB+	A2	Stable	Maintain	-
22-Sep-2016	BBB+	A2	Stable	Maintain	-
22-Sep-2015	BBB+	A2	Stable	Maintain	-
12-Dec-2014	BBB+	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect adequate financial profile of First Fidelity Leasing Modaraba (FFLM) supported by its debt free structure. However, subsequent benefits have been limited as significant portion of the asset structure is invested in non-earning/ illiquid assets i.e. investment property - Enplan. The company has been able to settle majority of its non performing advances. FFLM has an earning book mainly deployed in a portfolio of machinery and vehicles. Meanwhile, the management is making continuous and rigorous efforts to liquidate its exposure in "Enplan"; it expects amicable resolution. Concerns regarding another illiquid investment property - Murree Villas, are further expected to be resolved. The company is yet to develop a sustainable business model although the risk free structure provides comfort to the rating. Governance structure needs to be enhanced.

The ratings are dependent on the management's ability to envisage a business plan for the Modaraba. Timely liquidation of investment in "Enplan" is important to bring viability to the Modaraba. The management is making continuous efforts. Meanwhile, any debt acquisition should be considered carefully.

Disclosure

Name of Rated Entity	First Fidelity Leasing Modaraba
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology NBFC(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Ratings Transition(Jun-20)
Related Research	Sector Study Modaraba & NBFCs(Apr-20)
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Profile

Structure First Fidelity Leasing Modaraba (“FFLM” or “the Modaraba”) is, a perpetual multipurpose Modaraba, listed on Pakistan Stock Exchange (PSX).
Background FFLM, incorporated in 1991, is managed by Fidelity Capital Management (Private) Limited (FCML). Its registered office is situated in Gulberg, Lahore.
Operations The Modaraba is engaged in Ijarah and term financing under Morabaha arrangements. Additionally, the Modaraba has developed a portfolio of investment properties, both land and building.

Ownership

Ownership Structure FFLM is majority owned by the general public (67%). The Modaraba Management Company – Fidelity Capital Management (Private) Limited (FCML) – continued to hold 22% stake in the Modaraba. FCML is majority owned by Mughals Imperial (Pvt.) Limited and two individuals (60%), whereas Chief Executive Officer (18%) of the Modaraba and his associates (22%) own rest of the shares.
Stability The structure of Modaraba is stable. Current management has long association with the Modaraba. Further, FFLM performs succession planning session periodically and identify successors for all critical roles.
Business Acumen Mr. Wasim-ul-Haq Osmani, the Chief Executive Officer (CEO) of FFLM also having major shareholding in FCML, the management company, is a Chartered Accountant by profession. He has extensive experience in the financial sector and has been associated with the Modaraba since April 1994.
Financial Strength Mughals Imperial (Private) Limited, having majority stake in management company, is a part of Mughals Group. The group is primarily engaged in construction business since 1968 and has a world-wide set up of construction companies in Saudi Arab, Qatar, USA and Dubai.

Governance

Board Structure Board of Directors (BoD) comprises four members including the Chief Executive Officer (CEO), out of which two are independent and one is non-executive director
Members’ Profile CEO, Mr. Wasim-ul-Haq Osmani, a Chartered Accountant by profession, has extensive experience in the financial sector and has been associated with FFLM since April 1994. Apart from CEO, all directors are non-executive members of the board.
Board Effectiveness The Modaraba has three board committees for close monitoring of the management’s policies and operations (i) Audit Committee; (ii) Credit Committee; and (iii) Human Resource & Remuneration Committee. The board committees have not been able to provide a positive direction to the Modaraba, which is depicted through Modaraba’s stagnant performance.
Transparency The financial statements of FFLM for FY18 have been audited by M/s Rahman Sarfraz Rahim Iqbal Rafiq, Chartered Accountants which has qualified its audit opinion on matter of Enplan tower. According to the auditors, advance issued to Enplan (Pvt.) Limited amounting to PKR 204 mln need to be reassessed for its recoverability and impairment loss, if any, needs to be recognized

Management

Organizational Structure A simplified organizational structure exists. Operations are segregated into four broad departments wherein clear lines of responsibility are defined for each department.
Management Team FFLM operations are broadly divided into three departments: (i) Credit & Administration, (ii) Internal Audit & Risk Management, and (iii) Accounts & Finance. The department heads have been gradually promoted, after a long-term association with the Modaraba. Top management meets on a monthly basis to discuss key issues.
Effectiveness Functions of the management are clear and well-defined to effectively achieve its underlying goals and objectives. The system of internal control is in place and has been effectively implemented. It is being continuously reviewed by internal audit department of the Modaraba.
MIS The Modaraba initially outsourced its software – Visual FoxPro. Now it is updated internally and serves well the requirements of the Modaraba. MIS of the Modaraba consists of monthly reporting. Monthly reports, discussed in the monthly management meetings, mainly comprise performance of the financing portfolio (Ijarah, and Morabaha) along with comparison of actual performance against budget.
Risk Management Framework The credit department is responsible for initiating the credit request and evaluation of credit proposal. The risk management function of the Modaraba is independent of the Chief Executive and is controlled by the Internal Audit Department.

Business Risk

Industry Dynamics The reduction in economic activity amidst COVID-19 led to uncertainty for the sector . Post June, pick up of economy coupled with strong auto sales, is expected to provide welcome relief.
Relative Position Asset base of Modaraba is relatively low in comparison to other players of the industry. FFLM is not ranked in top 10 Modarabas on comparison of a PKR 381 mln asset base, as its major portfolio at present is stuck in the corporate tower ; Enplan.
Revenues FFLM’s revenue from Ijarah financing stood at PKR 5mln at 9MFY20 (FY19: PKR 10mln). Morabaha financing contributed PKR 3mln to the topline, resulting in Gross revenue of PKR 8mln in 9MFY20 (FY19: PKR 11mln). Net Revenue stood at PKR 9mln at 9MFY20(FY19: PKR 15mln).
Performance Interest rate scenario negatively affected the overall profitability of FFLM. Total earning assets decreased to PKR 66mln in 9MFY20 from PKR 80mln in FY19.
Sustainability Going forward, FFLM would continue focusing on liquidation of its non-earning assets – mainly Enplan and investment properties. The ultimate resolution of Corporate Tower shall bring principal amount along with lost opportunity cost of funds. FFLM visualizes its future prospects bright on realization of funds out of investments in the current real estate projects, to invest in business modes to generate regular stream of income for the benefit of the certificate holders.

Financial Risk

Credit Risk FFLM’s financing portfolio comprises of Morabaha-net of provision (16%) and Ijarah (84%). Ijarah portfolio majorly consist of two segments: (i) Vehicles (93%), and (ii) Machinery (7%). The company has extensive focus on the Real Estate segment. The company is hopeful
Market Risk FFLM focuses primarily on core financing business and has no exposure to equity/debt instrument during 9MFY20. Thus, Modaraba is not exposed to any market risk. Further, different parameters are used to monitor market risk performance of Modaraba’s funding base
Liquidity And Funding Currently, the Modaraba manages the liquidity risk by mainly selling off assets rather than investing the fund to ensure that it will always have sufficient resources to meet its liabilities when they fall due. Further, Modaraba does not have any financial obligation, which on one hand reflects a risk-free structure while on the other hand restricts Modaraba’s ability to expand its financing operations.
Capitalization FFLM’s capital structure is dominated by sponsor equity, with an equity-to-total-asset ratio of 89%. Going forward, the management does not expecting any change in leveraging.



The Pakistan Credit Rating Agency Limited

First Fidelity Leasing Modaraba

BALANCE SHEET	30-Mar-20	30-Jun-19	30-Jun-18	30-Jun-17
		Audited	Audited	Audited
	6MFY20	Annual	Annual	Annual
Assets				
Earning Assets	66	80	101	16
Moraba Financing	10	10	10	-
Assets given on Ijarah	51	64	77	4
Equity Investments	-	-	-	6
Non Earning Assets	315	303	298	333
Investment Property	224	224	224	224
Non-Performing Finances	-	320	318	357
<i>Less: Accumulated provision (specific/prudential)</i>	-	(261)	(260)	(263)
Total Assets	381	382	399	349
Liabilities				
Other Liabilities	41	41	42	26
Equity				
Total Equity	340	341	357	324
Total Equity and Liabilities	381	382	399	349
INCOME STATEMENT				
Gross Revenue	8	11	3	1
Total Net Revenue	9	15	46	2
Operating Expenses	(10)	(13)	(12)	(10)
Net Income /(Loss)	(1)	2	33	(8)
RATIO ANALYSIS				
Cost-to-Total Net Revenue	114%	91%	91%	560%
Equity / Total Assets	89%	89%	89%	93%
Impaired Lending / Gross Finances	55%	81%	81%	99%
Loan Loss Provisions / Impaired Lending	83%	82%	82%	74%

First Fidelity Leasing Modaraba

September, 2020

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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