



The Pakistan Credit Rating Agency Limited

## Rating Report

### First Capital Investments Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Sep-2020	AM4++	-	Negative	Maintain	YES
27-Sep-2019	AM4++	-	Negative	Maintain	YES
28-Mar-2019	AM4++	-	Developing	Maintain	YES
27-Sep-2018	AM4++	-	Developing	Maintain	YES
15-May-2017	AM4++	-	Stable	Maintain	-
30-Nov-2016	AM4++	-	Stable	Maintain	-
08-Jun-2016	AM4++	-	Stable	Harmonize	-
03-Dec-2015	AM4+	-	Stable	Maintain	-
06-Dec-2014	AM4+	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the company's modest market share, adequate organizational structure, weak fund performance and limited fund slate comprising a single fund. The Company's AUMs have witnessed up stick by 8.8% since Jun'19 and stood at PKR 106mln at end Jun-20. The net losses of the Company has been decreased from PKR 49mln (Jun-19) to PKR 5mln (Jun-20), due to unrealized gain on investments. While the equity of the Company has come under pressure due to losses and currently stands at PKR 202mln at end Jun-20, which is slight above the regulatory requirement. The ratings of the Company are placed on Watch and highlight the need to fill the gap, while ensuring no further depletion in equity. PACRA will monitor the situation and may take future action accordingly.

The rating is dependent on the board's decision regarding the future prospects and continuity of business operations. Meanwhile, maintaining all regulatory requirements are critical. Any shortfall in this regard will have a negative impact.

#### Disclosure

<b>Name of Rated Entity</b>	First Capital Investments Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Asset Manager Rating
<b>Applicable Criteria</b>	Methodology   AMC (Jun-20)
<b>Related Research</b>	Sector Study   Asset Managers(Jun-20)
<b>Rating Analysts</b>	Usama Zubair   usama.zubair@pacra.com   +92-42-35869504



## The Pakistan Credit Rating Agency Limited

### Profile

**Structure** First Capital Investments Limited ("FCIL" or "The Company"), incorporated in Oct-1994 as a public unlisted company.

**Background** FCIL, a subsidiary of First Capital Securities Corporation, is a Non-Banking Finance Company licensed to carry out Asset Management services.

**Market Share** The Company has a market share of less than ~0.01% at the end of Jun-20 0.02% (Jun-19).

**Diversification Of Fund Mix** The Company is currently managing one open-end mutual fund, First Capital Mutual Fund. The fund is in the Equity category.

**Investor Concentration** The top 10 investors concentration is significantly high ~92.6% at the end Jun-20

### Ownership

**Ownership Structure** FCIL is sponsored by First Capital Securities Corporation Limited (FCSC) – the holding company of First Capital group. FCSC along with the directors and other family members hold 78.5% shareholding. Late Mr. Sulieman Ahmed Said Al-Hoqani, an Omani Investor, holds a strategic stake of 9.2% in FCIL. The shareholding will be changed once the succession certificate received.

**Business Acumen** FCIL is part of the Financial Services Group of the First Capital / Pace Group. The group also has interests in print & media and property development. On the group level, it has been decided to focus on property development, its core business.

**Financial Strength** Building on years of experience, the First Capital Group enjoys a moderate financial foundation emanating from its well diversified businesses.

### Governance

**Board Structure** The Board of Directors of the Company comprises four members including the CEO.

**Members' Profile** Mr. Syed Nadeem Hussain is the Chairman of the Board. He has held several senior management positions with Citigroup in all major financial centers. He has also worked in New York, Greece, Bahrain and Riyadh for Citibank in credit, risk and relationship management roles.

**Board Effectiveness** The board exercises close monitoring of the accounting and financial reporting and hiring process through its audit and HR committees. The committees are headed by Ms. Fauzia Hussain Qureshi.

**Transparency** The Company's external auditors are Nasir Javaid Maqsood Imran Chartered Accountants. They are ranked in "B" category in the State Bank of Pakistan's Panel of Auditors.

### Management

**Organizational Structure** The Company has an adequate organizational structure. It operates through five main departments, which directly report to the CEO.

**Management Team** The senior management team of the Company has long term association with the group. There are dual roles at the group level for some of the top management. Mr. Imran Hafeez is the CEO of FCIL. He is a commerce graduate and an associate member of Pakistan Institute of Public Finance Accountants with over 15 years of experience in the field of finance. He is also working as the group director finance for the First Capital Group.

**Technology Infrastructure** FCIL has outsourced its back-office services to IT Minds – a subsidiary of CDC. IT Minds remains responsible for providing daily Net Asset Value (NAV) of First Capital Mutual Fund.

**Control Environment** The Company has devised policies and procedures for its operations and risk management.

### Investment Risk Management

**Credit Risk** The Company has an excel based model to evaluate the risks of the overall portfolio.

**Liquidity Profile** The risk management department generates liquidity and redemption risk report for the equity fund that shows a list of liquid stocks which will be able to meet heavy redemption under distress conditions.

**Market Risk** The Company remains exposed to market volatility as all of the investments are in listed equities.

### Portfolio Management

**IC Composition** The Company's investment committee comprises three members including the CEO, CFO, and Fund Manager.

**Effectiveness** The IC formally meets on a weekly basis in order to make investment decisions.

**Investment Research And Analysis** The Fund Manager performs the investment research and analysis.

### Customer Relationship

**Investor Services** The Company releases its fund manager reports on its webpage in a timely manner. However, no dedicated software for customer management exists.

**Investor Reporting** The Company's webpage is used as a reporting platform for dissemination of information pertaining to the Company and its funds under management, which includes NAV history, fund performance and other important announcements.

**Distribution And Sales Network** The Company has a very limited distribution and sales network, which only covers Lahore.

### Performance

**Asset Under Management** The Company has only one fund and the AUM's stood at PKR ~ 106mIn in Jun-20. (PKR ~ 97mIn in Jun-19).

**Asset Manager** The Company has reported a net loss of ~PKR 5mIn for FY20 (~PKR 49mIn for FY19). FCIL's equity stood at ~PKR 202mIn at end Jun-20. (~PKR 220mIn at end Dec-19)



The Pakistan Credit Rating Agency Limited

Fund's Performance | First Capital Investments Limited

Sr. No.	Fund Name	Category	AUMs (PKR' mln)		Return   12 M Trailing (%) (Jul'19 to Jun'20)			12 M Trailing		Top Ten Investors Concentration	Ranking (Jun'20)/ Stability Rating (Dec'19)	Ranking Jun'20 VIS
			Jun'20	Jun'19	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Bench.			
1	First Capital Mutual Fund	Equity	106	97	1.9%	0.2%	1.5%	1.7%	0.3%	91%	A(f)	-
Sum/Average:			106	97	1.9%	0.2%	1.5%	1.7%	0.3%	91%		

**Asset Manager Rating**

An independent opinion on the quality and expertise deployed by an asset management company

Scale	Definition
AM1	<b>Very high quality.</b> Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.
AM2++ AM2+ AM2	<b>High quality.</b> Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.
AM3++ AM3+ AM3	<b>Good quality.</b> Asset manager meets investment management industry standards and benchmarks.
AM4++ AM4+ AM4	<b>Adequate quality.</b> Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.
AM5	<b>Weak.</b> Asset manager does not meet the minimum investment management industry standards and benchmarks.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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’.</p>	<p><b>Rating Watch</b> 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.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> 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.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**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.

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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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