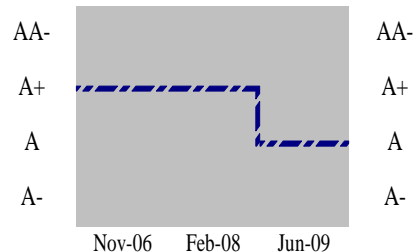


RATINGS (JUNE 2009)

ARIF HABIB INVESTMENTS LIMITED (AHIL)

ENTITY	NEW	PREVIOUS
Long-Term	A	A+
Short-Term	A1	A1



FINANCIAL DATA

PKR (mln)

	Mar-09 [^]	Jun-08	Jun-07
Total Assets	782.3	1,046.1	953.8
Equity	548.2	711.3	559.7
Adjusted Equity	350.0	708.6	698.5
Net Income/(loss)	(88.1)	249.0	215.4
RoE (%)	n.m.*	39.2	43.0
Debt/Adjusted Equity (%)	101.9	30.7	20.3

[^] Figures are based on the 9 months period ended March 31, 2009 (un audited)
*not meaningful

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RATING RATIONALE AND KEY RATING DRIVERS

- The rating action reflects pressure on the company's financial profile, attributable to erosion in the risk absorption capacity due to high exposure to equity markets arising from its investments. Meanwhile, performance prospects of the company are expected to remain under pressure in near term mainly driven by decline in assets under management, a trend witnessed across the industry in recent period. Nonetheless, AHIL carry superior investment infrastructure and product base to tap growth, once the revival of mutual fund industry gets underway.
- The ratings are dependent upon AHIL's ability to improve its risk absorption capacity and managing exposure to market risk. Meanwhile maintaining the quality of support systems and processes, amidst cost cutting pressures and developing stable revenue streams would be critical.

ASSESSMENT

- After witnessing a peak of around PKR400bln in assets under management in Mar08, the industry has almost reduced by half at present. While the constrained liquidity in the inter-bank market led to major redemption pressure in fixed income funds, as banks are the major investors in such funds, the downturn in capital markets eroded the value of investments in equity funds. Meanwhile, volatility in the fixed income category and closure of redemption by various asset managers also impacted investor's confidence. AHIL also witnessed considerable decline in its overall AUM putting pressure on its market share. Despite major redemption by investors and tough operating environment, the liquidity profile and performance of the company's funds remained superior in comparison to peers. This reflects AHIL's structured investment process and experienced management.
- The performance of AHIL in 9Months ending March-09 remained suppressed as reflected by a constrained bottom line. The management fee income witnessed a sharp decline due to declining asset under management. Revaluation deficit on investments dampened the performance. Profitability was also impacted by increase in financial charges on various running finance facilities availed during the period. Meanwhile, AHIL's efforts to rationalize its cost structure by downsizing its marketing and operations department have yet to make an impact on the operating cost of the company.
- Performance prospects of the company largely depend on the recovery of assets under management. Although economic indicators of the country have shown some improvement, it will take sometime before investor's confidence revives and fresh inflows in the industry are seen.
- AHIL, in addition to the seed capital, invests additional funds in its own mutual funds. This generates significant market risk to the company, particularly when a portion of the investment book is funded through borrowings. The recent meltdown of the equity markets has highlighted this risk as the company witnessed significant equity erosion due to revaluation losses.
- With equity erosion, debt to equity level of AHIL has increased significantly. While most of the borrowing remained short term, depressed core revenue has impacted the coverages of the company. However, once the management fee revenue improves, coverages are expected to revive.

PROFILE

- Incorporated in August 2000 and listed on the Karachi Stock Exchange, AHIL is among the leading asset management companies in Pakistan. Arif Habib Securities Limited (AHS) – the holding company for Arif Habib Group – holds majority stake (60.18%) in the company. Arif Habib group is engaged in investment management, financial advisory services, brokerage, banking, cement, and fertilizer industries. The financial profile of the group has lately come under pressure, owing to group's substantial exposure in capital markets, which have registered sharp meltdown in the recent past.
- The asset manager rating of "AM2" assigned to AHIL by PACRA reflects its structured investment process, experienced management team, diverse product base and sound technology platform.
- AHIL's board of directors comprises the CEO, two executive officers of AHS, and three independent directors, carrying diversified experience of various sectors including financial services. The Chief Executive of AHIL, a known figure in the country's mutual fund industry and associated with AHIL since its inception, is a Chartered Accountant with over three decades of experience in the financial sector.