

**ARIF HABIB INVESTMENT MANAGEMENT LIMITED (AHIML)****Ratings (November 2006)**

Arif Habib Investment Management Limited (AHIML)

Entity	New
Long-term	A+
Short-term	A1

Rating Rationale Assessment

- The ratings reflect AHIML's leading position in a rapidly evolving asset management industry. The company on the back of its experienced management, quality systems and processes, strong control environment, and a successful track record is well placed to exploit the emerging opportunities and maintain its market position and robust performance. The strong risk absorption capacity of the company and association with the Arif Habib Group are also key rating factors.
- With assets under management (AUM) of over PKR 20bln at present, AHIML holds around one-fifth of the total asset management business in the private sector, and caters to different investment objectives of a diversified client base through offering various types of funds. The company, benefiting from the overall positive developments in the sector, recorded robust growth in AUM during the last three years. In line with growth in AUM, the fee revenue, which is linked with funds net assets, also registered a substantial increase. This resulted in notable improvement in profitability, despite rising trend in operating expense due to initial business developmental and expansion costs. The profitability during FY06 was also bolstered by sizeable returns, in the form of dividend and capital gains, on company's investment portfolio. In an effort to augment the overall income, the management as a strategy makes sizeable investments in its own funds. As these investments are in the funds managed by the company, the management is in a better position to control the associated market risk.
- AHIML meets very high investment management industry standards and benchmarks, also reflected by an asset manager rating of 'AM2' assigned by PACRA. The company has an experienced senior management team supported by well-trained operational staff. Meanwhile, the technological resources, and other systems are well integrated and of high quality, providing a good level of support throughout the organization. The investment process of the company is well structured, and is supported by strong in-house research department. The management puts great emphasis in instilling a strong risk culture and control environment throughout the organization, and in this regard has developed comprehensive guidelines and implemented detailed control procedures. Due to the management's special focus on retail customers, nearly one-third of the funds under management of the company are from retail investors. This provides a comfort against the risk of major redemptions calls in respect of open-end funds, which constitute around 60% of the total management fee revenue.
- Going forward, the management is targeting continuous growth in assets under management and consequently the management fee revenue, and also aims at further increasing the proportion of retail investors. In this regard, it plans to launch variety of new funds and follow an aggressive marketing strategy. This involves an extensive advertisement campaign through electronic and print media, extending the scope of distribution arrangements with leading commercial banks, increasing the size of direct sales team developed by the company, and also tapping the market of non-resident Pakistanis in the Middle East. Due to entry of various new players, backed by strong business houses and established commercial banks in the sector, there is an increasing competition for attracting fresh investments. However, the bigger challenge for the growth of the sector lies in the effective deployment of these funds, owing to limited depth in the capital markets of the country and scarcity of other asset deployment avenues. Through a recent change in regulations, mutual funds have been allowed to invest a portion of their net assets outside Pakistan. While it will take some time before the industry develops the requisite expertise to exploit this opportunity, AHIML has already initiated exploratory steps for developing a focused strategy for entering foreign capital markets.
- The capitalization levels of the company registered a notable improvement in recent years due to improved profitability, and are fairly strong at present. This together with low financial leverage and high proportion of liquid investments exposes the company to a low level of financial risk.

Financial Data

PKR (mln)

	30-Jun-06	30-Jun-05
Total Assets	882.5	734.8
Equity	441.8	165.4
Net Income	266.4	122.7
ROE (%)	87.8	111.5
ROA (%)	32.9	21.8
Equity / Total Assets (%)	50.1	22.5

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Background

- Arif Habib Investment Management Limited (AHIML), incorporated in August 2000, is one of the largest private sector asset management companies in Pakistan. The majority stake (62%) in the company is held by Arif Habib Securities Limited (AHS) – the holding company for Arif Habib Group. The group is engaged in investment and financial advisory services, brokerage, and recently expanded and diversified its operations through acquisition of majority stakes in various industrial concerns. The group also recently launched a new commercial bank – Arif Habib Rupali Bank – through acquisition of Pakistan's operations of Rupali Bank of Bangladesh. The current Chief Executive of AHIML, Mr. Nasim Beg, is a Chartered Accountant with over 30 years of experience in the financial sector, including mutual fund industry.
- AHIML currently has 7 funds under management, 5 open-end and 2 closed-end, including equity, income, asset allocation, and Islamic funds. Meanwhile, investors also have the option to participate in various investment plans/schemes developed by the company, involving these funds.
- With its head office in Karachi, the company has a network of 5 branches in major cities of the country. The company also has distribution arrangements with some leading commercial banks and private distribution companies. In addition, the management intends to capitalize on the distribution resources of the newly launched commercial bank by the group.