



The Pakistan Credit Rating Agency Limited

## Rating Report

### EFG Hermes Pakistan Limited | BMR

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Dec-2023	BMR2+	-	Stable	Maintain	-
23-Dec-2022	BMR2+	-	Stable	Maintain	-
24-Dec-2021	BMR2+	-	Stable	Maintain	-
24-Dec-2020	BMR2+	-	Stable	Maintain	-
27-Dec-2019	BMR2+	-	Stable	Maintain	-
28-Jun-2019	BMR2+	-	Stable	Maintain	-
28-Dec-2018	BMR2+	-	Stable	Maintain	-
02-Mar-2018	BMR2+	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

EFG Hermes Pakistan Limited ('EFGH' or the 'Company') has the backing of "EFG Hermes", an international financial services group. As a part of strategic re-allocation of its resources, the Group has declared an exit from Pakistan and has put up its ~51% ownership stake of EFGH for sale. However, the Group maintains its continued financial and non-financial backing for EFGH. The Company primarily provides equity brokerage. The market experienced low volumes and limited investor interest during 1HCY23, impacting the brokerage industry's revenue; however, since the start of 2HCY23, the market volumes have picked up and investor interest has managed to push the index to historic highs. The market volumes growth trend appears to be ongoing, resulting in positive market indicators for 2HCY23. The rating incorporates the Company's association with astute sponsors, 'EFG Group', an international financial service group. EFGH has a robust governance framework backed by a board of 7 members including 4 non-executive and two independent directors. The management team comprises seasoned professionals with proper departmentalization and defined roles. Further, clients are provided with up-to-the-mark services in the form of mobile and web-based trading, access to traders and in-house customer services. A strong control environment emanates from group oversight and group internal audit functions which reports directly to the board Audit Committee. EFGH has established rigorous controls and policies to govern client relationships and handle grievance mechanisms. During 9MCY23, the equity brokerage revenue stood at ~PKR 87mln depicting a decline of ~6% (SPLY: ~PKR 93mln). The Company suffered from a loss after tax of ~PKR 101mln during 9MCY23 (SPLY: loss of ~PKR 68mln). The losses stem from the ongoing inflationary pressure increasing administrative expenses, and the prevailing high interest rates causing a surge in the finance cost. The Company's realization of its planned strategy to focus on retail clientele may result in an improvement in the topline. EFGH does not partake in proprietary investment books, thus limiting market risk. The sponsor continues to support EFGH through a guaranteed loan facility of PKR 825mln. The equity base is considered low, amounting to ~PKR 128mln at end-Sep'23. Moreover, the equity injection of PKR 60mln during 3QCY23 by the Group signifies the Group's ongoing support.

Moving forward, it is imperative from a ratings perspective to maintain topline growth, revenue diversification, and profitability. Moreover, retention of key management personnel and further separation of management roles remain critical.

#### Disclosure

<b>Name of Rated Entity</b>	EFG Hermes Pakistan Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	Assessment Framework   Broker Management Rating(Nov-23)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-23)
<b>Rating Analysts</b>	Hassan Ahmad   Hassan.Ahmad@pacra.com   +92-42-35869504



## Ownership

**Ownership Structure** Ownership Structure EFG Hermes Frontier Holdings LLC is the major shareholder having a 51% holding of EFG Hermes Pakistan. ~5% of shares are held by directors and the rest ~44% are owned by individuals and institutions.

**Stability** EFG Hermes Frontier Holdings LLC is a 100% owned subsidiary of EFG-Hermes Holding S.A.E. The focus of EFG Hermes Frontier Holding LLC is to increase footprints and explore new opportunities in the world's frontier markets. EFG Hermes Holdings S.A.E. is an investment bank in the Middle East, North Africa (MENA) and Pakistan.

**Business Acumen** EFG, also known as the Egyptian Financial Group, became the first investment banking firm in Egypt when it was established by Dr. Mohamed Taymour in 1984. The company brought many investment strategies that were common to the west to Egypt as several of the firm's founders had Wall Street experience in corporate finance, sales & trading and asset management; for example, Hermes established the first equity index in all of Egypt.

**Financial Strength** The sponsors have adequate net worth and may inject capital into the Company with an increasing quantum of operations. The Holding Company earned ~PKR 2,061 mln profit during 9MCY23, while its equity stood at ~PKR 44,107 mln at end Sep'23.

## Governance

**Board Structure** The Company's Board of Directors (BoD) comprises seven members, which include two independent directors and four non-executive directors. Mr. Murad Ansari, a non-executive director, currently chairs the board.

**Members' Profile** The board members on average possess ~20 years of relevant experience. The board members are skilled and experienced in managing business operations efficiently. The presence of independent directors strengthens the governance framework.

**Board Effectiveness** To ensure an effective control environment and compliance with reporting standards, the Company has constituted two board committees: i) Audit Committee, and ii) Human Resource and Remuneration Committee. Both the Audit and Human Resource committees are chaired by independent directors.

**Financial Transparency** Riaz Ahmad Saqib Gohar & Company Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the financial statements for CY22. The firm is QCR rated by ICAP and is in the B Category of SBP's panel of auditors.

## Management

**Management Team** The CEO, Mr. Saad Iqbal, CFA has over 10 years of relevant experience. The CFO, Mr. Ahmad Zakir Hafeez holds MBA and has been associated with the Company since its inception. Mr. Shahid Kamal heading the secretarial and compliance department is an ACMA and also a Fellow Member of PIPFA.

**Organizational Structure** EFGH has a matrix organizational structure that clearly highlights each individual's roles and responsibilities. The functions of the Company are mainly divided into (i) Finance, (ii) Information Technology, (iii) Equity (Sales), (iv) Admin & HR, (v) Research, (vi) Regional Branch, (vii) Risk Management and Customer Services, (viii) Corporate Affairs and Compliance, (ix) Equity (Settlement), (x) Online Sales and (xi) International Sales. The management directly reports to the heads of departments at the group level.

**Client Servicing** The Company has provided its customers with various channels, including a mobile app and online trading platform to facilitate the execution and monitoring of their transactions. The research department shares the relevant research with the clients on a regular basis.

**Complaint Management** EFGH has provided a guide for lodging complaints on its website and investors can lodge complaints through phone calls, SMS, Email, Website and by physical appearance. The customer service department looks after the complaint's resolution.

**Extent Of Automation / Integration** EFGH's trading system has a centralized real-time risk management system and allows for online trading. The core software functions include Equity Settlement, MM Settlement, Payroll, Accounting and Risk Management. Furthermore, to facilitate its customers, EFGH is establishing a new tailor-made platform which will include an online trading system and a customized mobile app.

**Continuity Of Operations** The Company has a fully operational business continuity & disaster recovery location, which provides a robust structure for resuming all critical operations in the shortest possible time. The data pertaining to back-office records and applications are being backed daily and secured in two separate locations.

**Risk Management Framework** EFGH has established Risk Management procedures for reviewing risk appetite, policies and controls put in place. EFGH's internal audit function which is instrumental in mitigating risk is also based at the group level. EFGH has a separate Risk Manager and the policies are aligned at the group level.

**Regulatory Compliance** EFGH's compliance department ensures that it is compliant with all the PSX requirements and SECP (Anti Money Laundering and Countering Financing of Terrorism) Regulations that pertain to its particular industry, as well as professional standards, accepted business practices, and internal standards.

## Business Sustainability

**Business Risk** The brokerage industry faced significant challenges during FY23 due to elevated political uncertainty and soaring inflation, which adversely impacted the country's economic landscape. As a result, market activities were subdued, with investors favoring the security of fixed returns from the higher interest rates prevalent in the economy. However, as FY23 commenced, there emerged a recovery in investor confidence. This can be attributed to the resumption of the IMF program and recent government initiatives aimed at tackling persistent economic issues, including addressing circular debt. Despite these positive trends, the political situation in the country remains unstable, leading many investors to adopt a cautious stance until the conclusion of the elections

**Business Profile** EFGH primarily provides the services of equity brokerage. The brokerage clients are divided into three broad segments: i) Foreign ii) Institutions and iii) Retail/HNWIs.

**Revenue And Profitability Analysis** During 9MCY23, the brokerage commission stood at ~PKR 87mln while during 9MCY22 it stood at ~PKR 92 mln. Consequently, the Company reported a net loss of ~PKR 101mln during 9MCY23 as compared to a loss of ~PKR 68mln during 9MCY22. The 5% decline in brokerage commission and sudden decline of profit by 49% is recognized mainly due to increased cost as a result of inflationary pressures and hike in interest rate.

## Financial Sustainability

**Credit Risk** The majority of the credit exposure is with the customers, brokers and other financial institutions. The Company controls its credit risk through a variety of reporting and control procedures, including establishing credit limits based on a review of the counterparties' financial conditions. The Company monitors collateral levels on a regular basis and requests changes in collateral levels as appropriate if considered necessary.

**Market Risk** EFGH, as a matter of policy, does not engage in proprietary equity investments, thus limiting the impact of market risk. The Company invests its excess funds in government securities.

**Liquidity Profile** The current assets of EFGH stood at ~PKR 1,109mln at end-Sept'23 as compared to current liabilities of ~PKR 228mln. The Company retains the ability to borrow funds in the short term and liquidate investments in the financial assets if the need arises.

**Financial Risk** The Company has availed a long-term loan of ~PKR 825mln which is secured against the financial guarantee by the parent company. By the end of 9MCY23, the equity stood at ~PKR 128mln while during CY22, the equity stood at ~PKR 170mln as compared to CY21 (~PKR 163mln).



EFG Hermes Pakistan Limited

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Sep-23	Dec-22	Dec-21	Dec-20
	9M	12M	12M	12M
	Management	Audited	Audited	Audited
<b>A Fee Based Income</b>				
1 Advisory Fees	0.00	0.00	0.04	0.00
2 Commission / Underwriting	0.00	0.00	0.00	0.00
3 Brokerage	87.36	116.24	241.61	171.60
4 Others	17.80	11.90	14.62	0.00
	<i>Fee Based Income</i>			
	105.16	128.14	256.27	171.60
<b>B Operating Expenses</b>				
1 Personnel Expenses	-76.82	-86.9	-95.28	-157.58
2 Other Non-Interest/Mark Up Expenses	-105.21	-118.95	-100.94	0.00
	<i>Operating Expenses</i>			
	-182.03	-205.8	-196.22	-157.58
<b>C Brokerage Income/(Loss)</b>	-76.87	-77.66	60.05	14.02
<b>D Non Fee Based Income</b>				
1 From Financial Assets				
a. Finances	0.00	0.00	0.00	3.30
b. Dividend Income	0.00	1.06	1.09	0.59
c. Gain/(Loss) on Securities	103.93	97.56	26.92	32.14
d. Surplus/(Deficit) on Revaluation of Investments	14.16	14.66	6.85	4.37
e. Share of profit of subsidiaries/associates	0.00	0.00	0.00	0.00
f. Others	0.00	9.75	3.26	0.00
	118.09	123.03	38.12	40.40
2 From Non-Financial Assets				
a. Net Profit/(Loss) on sale of fixed assets	0.00	-0.01	-0.29	0.00
b. Rental Income	0.00	0.00	0.00	0.00
c. Unrealized Gain/loss on re-measurement of investment property	0.00	0.00	0.00	0.00
d. Others	-0.15	-20.02	-7.40	2.24
	-0.15	-20.03	-7.70	2.24
	<i>Non Fee Based Income</i>			
	117.94	103.00	30.42	42.63
<b>E Total Operating Income/(Loss)</b>	41.07	25.33	90.47	56.65
<b>F Financial Charges</b>	-121.67	-111.77	-43.80	-40.43
<b>G Pre-Tax Profit</b>	-80.60	-86.44	46.67	16.22
<b>H Taxes</b>				
1 Current	-20.21	-19.11	-17.79	-14.56
2 Prior	0.00	3.64	0.00	0.00
3 Deffered	0.00	0.00	0.00	0.00
	<i>Taxes</i>			
	-20.21	-15.48	-17.79	-14.56
<b>I Profit After Tax</b>	-100.80	-101.91	28.89	1.66
<b>J Other Comprehensive Income</b>				
1 Items Potentially Re-classified to Profit & Loss	-1.52	-9.09	-1.72	3.75
2 Items Not Potentially Re-classified to Profit & Loss	0.00	0.00	0.00	0.00
	<i>Other Comprehensive Income</i>			
	-1.52	-9.09	-1.72	3.75
<b>K Total Comprehensive Income / (Loss)</b>	-102.32	-111.00	27.17	5.41
<b>L Equity Brought Forward</b>	169.97	163.15	135.98	130.57
<b>M Appropriations</b>				
1 Share Capital	0.00	0.00	0.00	0.00
2 Reserves	60.00	117.82	0.00	0.00
3 Revaluation	0.00	0.00	0.00	0.00
4 Cash Dividend	0.00	0.00	0.00	0.00
5 Unappropriated Profit	-100.80	-101.91	28.89	1.66
	<i>Appropriations</i>			
	-40.80	15.91	28.89	1.66
<b>N Equity Carried Forward</b>	127.66	169.97	163.15	135.98

### Broker Management Rating

An independent opinion on the quality of management and services provided by a broker

Scale	Definition
<b>BMR 1A</b>	<b>Excellent.</b> Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++</b> <b>BMR 1+</b> <b>BMR 1</b>	<b>Strong.</b> Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++</b> <b>BMR 2+</b> <b>BMR 2</b>	<b>Sound.</b> Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++</b> <b>BMR 3+</b> <b>BMR 3</b>	<b>Adequate.</b> Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++</b> <b>BMR 4+</b> <b>BMR 4</b>	<b>Inadequate.</b> Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak.</b> Weak regulatory compliance and business practices.

<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) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) 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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(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

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- (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 | Clause 11-(A)(p).
- (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)

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- (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)

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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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