



## The Pakistan Credit Rating Agency Limited

### Rating Report

#### AL Habib Capital Markets (Pvt.) Limited | BFR

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#### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
19-Jul-2023	BFR 2+	Stable	Maintain	-
19-Jul-2022	BFR 2+	Stable	Maintain	-
19-Jul-2021	BFR 2+	Stable	Initial	-

#### Rating Rationale

Factor	Comment
<b>Ownership</b>	The assigned rating incorporates the business acumen of the primary sponsor " Bank Al Habib Limited", which owns ~67% of the ownership. The remaining shares are held by the Habib Family, friends and associates.
<b>Governance</b>	The Company has six directors on board, five non-executive and one executive director. Representation of the primary sponsor on the board is well noted. The addition of independent directors to the board would strengthen governance oversight.
<b>Management and Client Services</b>	The Company has well developed organizational structure to manage its operations and appropriate policies to protect the clients interest. The ratings incorporate the improvement to AHCMLs client services through the addition of an online sales and marketing department.
<b>Internal Controls and Regulatory Compliance</b>	The presence of a separate internal audit department contributes positively to the rating while the board Audit Committee further ensures and effective control environment. However, the separation of risk and compliance functions would strengthen the control framework. The Company has established rigorous protocols regarding risk assessment by implementing KYC, CDD,AML and CFT which bodes well for the rating.
<b>Business Sustainability</b>	The topline of the Company is concentrated in equity brokerage income which clocked in at ~PKR 68mln for CY22( CY21: ~PKR 125mln). In line with the market activity, the revenue has declined by ~44% during CY22. The diversification in the form of MTS and MFS aids the topline.
<b>Financial Sustainability</b>	The investment book is mostly comprised of GoP securities, hence market risk exposure is limited. Short-term financing stood at ~267mln while equity stood at ~PKR 338mln at end-Dec22.

#### Key Rating Drivers

Going forward, it is imperative to diversify revenue sources. The managements ability to retain its market share and boost trading volumes in order to improve its competitive standing in the Brokerage Industry is an integral part of the rating decision. Retention of key personnel, adherence to regulatory requirements, and sustainability of profitability will remain important from a rating perspective.

#### Disclosure

<b>Name of Rated Entity</b>	AL Habib Capital Markets (Pvt.) Limited   BFR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Fiduciary Rating (BFR)
<b>Applicable Criteria</b>	Methodology   Broker Fiduciary Rating(Jan-23)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-23)
<b>Rating Analysts</b>	Muhammad Jhangeer Hanif   jhangeer@pacra.com   +92-42-35869504

## Profile

**Background** AL Habib Capital Markets (Pvt.) Limited, "AHCML or The Company" is a licensed TREC holder of the Pakistan Stock Exchange and was incorporated under the Companies Ordinance 1984 in 2005 as a private limited company

**Operations** AHCML's service offering includes Equity Brokerage and Economic and Investment Research. The clientele of the Company is segmented into three categories i) HNWI's ii) Financial Institutions iii) Retail.

## Ownership

**Ownership Structure** Bank AL Habib Limited (BAHL) is the major shareholder of AHCML, accounting for two-third of the ownership. The remaining one-third is held by Habib Family, friends and associates.

**Stability** Habib Group has been historically involved in the banking sector for about 80 years. BAML operates through a network of 1090 branches /sub-branches, including 165 Islamic banking branches at end-Dec'22.

**Business Acumen** The CEO, Mr. Aftab Q. Munshi possesses diversified experience in capital markets. He is serving on the Board of Directors of AHCML as Chief Executive since its incorporation. Mr. Munshi served with the Jahangir Siddiqui Group for almost 12 years in multiple roles. He headed their Equity Operations for about five years.

**Financial Strength** The sponsors have sizeable net worth and may provide support to the Company with the increasing quantum of operations. Bank AL Habib Limited enjoys a rating of AAA, assigned by PACRA. The assets of BAML stood at ~PKR 2,272bln at end-Dec'22.

## Governance

**Board Structure** The Company has six directors on the board including CEO and Chairman. There are 5 non-executive directors and 1 executive director. Presence of independent insight would be an encouraging factor from the ratings perspective.

**Members' Profile** The board possess the necessary skills and experience required for capital markets. The board members, on-average, possess more than ~20 years of experience in the field of finance and capital markets.

**Board Effectiveness** During the period under review, three board meetings were conducted and attended by the majority of the board members. The board is always provided with MIS pack prior to the meeting and the meeting discussions are properly documented in the form of minutes.

**Financial** The external auditors of the Company are EY Ford Rhodes, Chartered Accountants. They have expressed an unqualified opinion on the financial statements for CY22. The firm is QCR rated by ICAP and is in the A Category of SBP's panel of auditors.

## Management And Client Services

**Organizational Structure** The Company has well developed organizational structure to manage its operations and appropriate policies to protect the client's interest and to preserve their good faith and trust. The Company operates through one branch office and the Head Office located in Karachi. The COO and CFO report to the Company's CEO. However, the internal audit and compliance departments report to the Audit Committee.

**Management Team** The management of AHCML is well qualified and experienced to manage the Company's operations efficiently. The CFO Mr. Rizwan Hashmi is a Fellow Member of Association of Chartered Certified Accountant. He has been serving as CFO & Company Secretary of AL Habib Capital Markets (Pvt.) Limited since March 2017.

**Client Servicing** AHCML regularly publishes reports on market strategy, economy, daily news and market updates. AHCML has provided direct links to relevant institutions and departments on their website. Moreover, various channels, including a mobile app and online trading platforms, are available to execute and monitor the transactions.

**Complaint Management** A designated officer has been assigned the responsibility for handling and rectification of complaints. Complaints can also reach the Company through telephone, email, and website. Direct links for PSX and SECP are also available on website to lodge complaints.

**Extent Of Automation / Integration** AHCML has comprehensive and effective IT arrangement to deal with dynamic technological environment prevailing in the capital markets arena. The "Catalyst System" is deployed for online trading transactions with PSX and online monitoring of the margin exposure

**Continuity Of Operations** AHCML has established a recovery plan for all essential infrastructure elements, systems, networks, and key business activities. The business continuity plan provides a framework for business departments if a major incident occurs, causing disruption to pre-defined critical services.

## Internal Controls And Regulatory Compliance

**Risk Management Framework** The Company has an in-house internal audit department, which monitors implementation of the policies and procedures of AHCML. Audit Committee further ensures an effective control environment. For an effective control environment and compliance with reporting standards, AHCML has constituted an Audit Committee and Investment Committee at the board level. Management Committee of AHCML reviews/monitors risk management of the Company amongst other matters.

**Regulatory Compliance** Compliance Department ensures regular monitoring of controls and systems, which ensures that all functions are in-line with the applicable policies, procedures and regulations. Research analyst policy has also been formulated.

## Business Sustainability

**Operating Environment** Pakistan's economy is placed at a precarious point right now. The resumption of the IMF program is necessary to have access to much-needed foreign inflows to boost the critically low SBP forex reserves. Inflation has been consistently rising and is forecasted to rise further. The policy interest rates have increased to try and curb inflation, which has impacted the volumes for the brokerage industry as investors are opting for safer fixed-income returns instead of riskier equity investments. Moving forward, resolving the Letter of Credit (LC) issues remains imperative to allow manufacturers to resume their operations and restart the economic activity in the country.

**Performance** The Company's operating revenue is mainly concentrated in equity brokerage. During the year the Company reported operating revenue of ~PKR 70mln, declined by 44% when compared with CY21. The topline was impacted on account of subdued market activity. The Company reported a net loss of ~PKR 3mln in CY22 compared to a net profit of ~PKR 42mln in CY21. The loss occurred due to the decline in the operating revenue which is in line with the market trend.

**Strategy** The management is considering diversifying its revenue streams and client outreach. The Company has initiated corporate finance activities and further plans to enhance corporate finance activities in CY23.

## Financial Sustainability

**Credit Risk** For the assessment of client's creditworthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. The exposure limits as a whole and on individual basis are monitored and any shortfalls are immediately reported to senior management for prompt action.

**Market Risk** AHCML has maintained a proprietary portfolio. However, major exposure is in Government securities. The Company has formalized an investment policy whereby limits have been defined to mitigate the risks. The compliance department monitors the limits consistently

**Liquidity Risk** The liquidity profile of AHCML is strong. The Company reported current assets of ~PKR 824mln in CY22 as compared to current liabilities of ~PKR 505mln.

**Capitalization** At end-Dec'22, the Liquid Capital Balance (LCB) of the Company stood at ~PKR 179mln. The Company has an equity base of ~PKR 338mln at end-Dec'22.

PKR mln

## Al Habib Capital Market (Pvt.) Limited

Dec-22

Dec-21

Dec-20

12M

12M

12M

### A BALANCE SHEET

1 Finances	91	452	-
2 Investments	251	192	256
3 Other Earning Assets	82	259	119
4 Non-Earning Assets	419	186	797
5 Non-Performing Finances-net	-	-	-
<b>Total Assets</b>	<b>844</b>	<b>1,089</b>	<b>1,173</b>
6 Funding	267	464	229
7 Other Liabilities (Non-Interest Bearing)	239	252	597
<b>Total Liabilities</b>	<b>506</b>	<b>716</b>	<b>826</b>
<b>Equity</b>	<b>338</b>	<b>373</b>	<b>347</b>

### B INCOME STATEMENT

1 Fee Based Income	108	138	94
2 Operating Expenses	(117)	(112)	(87)
3 Non Fee Based Income	74	54	34
<b>Total Operating Income/(Loss)</b>	<b>64</b>	<b>81</b>	<b>41</b>
4 Financial Charges	(63)	(24)	(5)
<b>Pre-Tax Profit</b>	<b>1</b>	<b>57</b>	<b>36</b>
5 Taxes	(4)	(15)	(6)
<b>Profit After Tax</b>	<b>(3)</b>	<b>41</b>	<b>30</b>

### C RATIO ANALYSIS

#### 1 Business Sustainability

Pre Tax Margin	1.0%	41.0%	38.3%
EBITDA/ Revenue	61.4%	60.2%	38.9%
Profit / (Loss) Before Interest & Taxes / Total Assets	7.6%	7.4%	3.5%

#### 2 Financial Sustainability

Total Investments / Equity	74.3%	51.4%	73.9%
NCB / Equity	0.0%	68.8%	69.3%
LCB/ Total Equity	52.8%	53.1%	72.4%
( Cash & Cash Equivalents + Government Securities ) / Total Assets	76.4%	44.0%	88.3%
Total Debt / Equity	78.9%	124.4%	66.1%

### Broker Fiduciary Rating Scale & Definitions

An independent opinion on a broker's quality of management and client services, and sustainability of operations

Scale	Definition
<b>BFR 1</b>	<b>Very Strong.</b> Very Strong quality of management and client services, and very high likelihood of sustaining operations.
<b>BFR 2++</b> <b>BFR 2+</b> <b>BFR 2</b>	<b>Strong.</b> Strong quality of management and client services, and high likelihood of sustaining operations.
<b>BFR 3++</b> <b>BFR 3+</b> <b>BFR 3</b>	<b>Good.</b> Good quality of management and client services, and above average likelihood of sustaining operations.
<b>BFR 4++</b> <b>BFR 4+</b> <b>BFR 4</b>	<b>Adequate.</b> Adequate quality of management and client services, and average likelihood of sustaining operations.
<b>BFR 5</b>	<b>Weak.</b> Weak quality of management and client services, and weak likelihood of sustaining operations.

<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'.	<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.	<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.	<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.	<b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.
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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

### **Restrictions**

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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)
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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)
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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 | 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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