



## DIRECTORS REPORT TO THE SHAREHOLDERS

In compliance with Section 227 of the Companies Act, 2017, the Directors are pleased to present the Annual Report along with Audited Financial Statements and Auditor's Report thereon for the year ended 30<sup>th</sup> June 2023.

### PRINCIPAL ACTIVITIES

The Pakistan Credit Rating Agency Limited, referred to as the "Holding Company," is a publicly traded corporation established in Pakistan under the Companies Ordinance of 1984 (which has since been replaced by the Companies Act of 2017). The primary focus of the company is to conduct assessments of credit risk for various businesses and specific financial instruments. These evaluations result in the assignment of a credit rating to the entity or instrument in question, indicating its ability to meet its financial obligations and debt repayments. The official headquarters of the company are located at Awami Complex, FB-1, Usman Block, New Garden Town, Lahore. The Pakistan Credit Rating Agency Limited is a constituent of the PACRA Group, which comprises:

PACRA Group	Direct Holding
<b>Subsidiary Company</b>	
PACRA Analytics (Private) Limited	100%
<b>Associated Company</b>	
Tasdeeq Information Services Limited (TISL)	20%

### FINANCIAL HIGHLIGHTS OF THE COMPANY:

In the fiscal year under examination, the company witnessed an increase in its revenue, marking a 27% growth, with total revenue amounting to PKR 402.6 million. In contrast, the cost of revenue also experienced an increase, albeit at a lower rate of 21%, reaching PKR 243.2 million. Consequently, the operating profit for the year increased to PKR 159.4 million, reflecting substantial growth from the previous year's PKR 115.5 million.

The profit before tax for the same period reached PKR 171.0 million, surpassing the previous year's figure of PKR 127.3 million. After accounting for taxes, the company achieved an after-tax profit of PKR 125.6 million, representing a remarkable 39% increase in profit when compared to the PKR 90.5 million reported in 2022.

Earnings per share for the fiscal year ending on June 30, 2023, reached PKR 16.9, significantly higher than the PKR 12.1 reported in the previous year. This strong financial performance underscores the company's growth and profitability in the reported period.

PKR in million	30-Jun-23		30-Jun-22		Variance   SPLY	
	12M		12M		PKR	%
<b>REVENUE</b>						
Entity	254.5	63%	216.9	68%	37.6	17%
Debt	78.7	20%	63.7	20%	15.0	24%
Funds	26.0	6%	23.2	7%	2.7	12%
Non-Rating	43.5	11%	12.9	4%	30.6	237%
	<b>402.6</b>	<b>100%</b>	<b>316.6</b>	<b>100%</b>	<b>86.0</b>	<b>27%</b>
<b>COST OF REVENUE</b>						
Remuneration Cost	(189.8)	-47%	(159.3)	-50%	(30.5)	19%
Infrastructural Cost	(28.5)	-7%	(25.8)	-8%	(2.7)	10%
Administrative Cost	(25.0)	-6%	(16.1)	-5%	(8.9)	55%
	<b>(243.2)</b>	<b>-60%</b>	<b>(201.2)</b>	<b>-64%</b>	<b>(42.1)</b>	<b>21%</b>
<b>Operating Profit</b>	<b>159.4</b>	<b>40%</b>	<b>115.5</b>	<b>36%</b>	<b>43.9</b>	<b>38%</b>
Bad Debts/Provision	(2.5)	-1%	(4.7)	-1%	2.2	-47%
Other Income	17.9	4%	19.6	6%	(1.7)	-9%
Finance Cost	(3.8)	-1%	(3.1)	-1%	(0.7)	22%
<b>Profit before Tax</b>	<b>171.0</b>	<b>42%</b>	<b>127.3</b>	<b>40%</b>	<b>43.8</b>	<b>34%</b>
Taxation	(45.4)	-11%	(36.7)	-12%	(8.7)	24%
<b>Profit after Tax</b>	<b>125.6</b>	<b>31%</b>	<b>90.5</b>	<b>29%</b>	<b>35.1</b>	<b>39%</b>
Earning per Share (EPS)	<b>16.9</b>	4%	12.1	4%	4.7	39%



## 6-YEAR FINANCIAL HISTORY

<b>Profit &amp; Loss Statement</b>	<b>FY 23</b>	<b>FY 22</b>	<b>FY 21</b>	<b>FY 20</b>	<b>FY 19</b>	<b>FY 18</b>
	Audited	Audited	Audited	Audited	Audited	Audited
<b>Revenue</b>						
Entity	255	217	189	175	146	129
TFCs	79	64	56	53	51	44
Funds	26	23	22	20	18	17
	<b>359</b>	<b>304</b>	<b>267</b>	<b>248</b>	<b>216</b>	<b>190</b>
Advisory/Consultancy	43	13	2	-	-	1
<i>Revenue</i>	<b>402</b>	<b>317</b>	<b>269</b>	<b>248</b>	<b>216</b>	<b>191</b>
<b>Expenses</b>						
Staff & Remuneration Cost	(189)	(160)	(143)	(134)	(121)	(96)
Infrastructure Cost	(28)	(26)	(21)	(19)	(18)	(15)
Overheads	(25)	(16)	(17)	(18)	(16)	(19)
<i>Expenses</i>	<b>(243)</b>	<b>(202)</b>	<b>(181)</b>	<b>(171)</b>	<b>(155)</b>	<b>(130)</b>
<b>Gross Profit</b>	<b>159</b>	<b>115</b>	<b>88</b>	<b>77</b>	<b>61</b>	<b>61</b>
Provision for expected credit losses	(3)	(5)	(2)	(4)	(1)	-
Other Income	18	20	26	4	1	3
Finance Cost	(4)	(3)	(6)	(6)	(4)	(3)
<b>Profit before Tax</b>	<b>171</b>	<b>127</b>	<b>106</b>	<b>71</b>	<b>57</b>	<b>61</b>
Tax	(45)	(37)	(34)	(24)	(15)	(17)
<b>Profit after Tax</b>	<b>126</b>	<b>90</b>	<b>72</b>	<b>47</b>	<b>42</b>	<b>44</b>

### INVESTMENT IN SUBSIDIARY - PACRA ANALYTICS (PRIVATE) LIMITED

PACRA Analytics (Private) Limited is a wholly-owned subsidiary of PACRA. The company owns 10,000 (2022: 10,000) fully paid ordinary shares at the rate of PKR 10 each. The company is mainly engaged in the provision of advisory and consulting services in the domain of risk management, in addition to offering training. The scale of operations is relatively limited. During the year under review, PACRA Analytics had revenue of PKR6.6 million (2022: PKR 8.4) and profit after tax of PKR 1.03 million (2022: PKR 1.91 million).

### INVESTMENT IN ASSOCIATES – TASDEEQ INFORMATION SERVICES LIMITED (TISL)

Tasdeeq Information Services Limited (“Tasdeeq”), formerly Aequitas Information Services Limited is an associated company of PACRA, whereby PACRA owns 10,000,000 (2022: 10,000,000) fully paid-up shares at the rate of PKR 10 each, which represents 20% shareholding in Tasdeeq. Tasdeeq is the first State Bank licensed credit bureau in Pakistan. During the year under review, Tasdeeq had revenue of PKR 206 million (Un-Audited) (2022: PKR 203.7 million) and loss after tax of PKR 15 million (Un-Audited) (2022: PKR 8.7 million).

### FUTURE PLANS

The company has experienced constrained growth in its rating portfolio for several reasons. Firstly, there is a prevailing preference for collateral-based lending, which has limited our expansion. Additionally, difficulties in penetrating the SME sector stem from a scarcity of necessary documentation, hindering our outreach efforts. Moreover, there exists a lack of awareness among potential customers regarding the advantages of credit ratings, further impeding our growth potential. The broader economic conditions in Pakistan have also constrained our credit expansion. Furthermore, our revenue streams have not diversified adequately. While we have been cautious to avoid conflicts of interest, our income from non-rating services, such as research and training, has remained quite limited.

To diversify our revenue sources, our company is embarking on a series of strategic initiatives. Firstly, we are capitalizing on PACRA's extensive database to explore alternative revenue streams. This includes venturing into data analytics, business intelligence, and providing specialized research services tailored for financial institutions. Our goal is to create more comprehensive research reports that can be monetized, positioning PACRA as the primary go-to resource for research sought after by both local and foreign investors. This strategic shift is not only expected to augment our revenue but also enhance overall employee productivity.



Another key strategy involves a shift in our training focus. We are transitioning from predominantly serving banks and corporations, where competition is intense, to training analysts who are well-prepared for the unique demands of financial institutions. This realignment aligns with our in-house requirements and is supported by the development of a comprehensive business plan.

Furthermore, we are aiming to enrich our portfolio of services by placing a heightened emphasis on performance rating products. Specifically, we are targeting Social Impact Performance (SIP) ratings, catering to microfinance institutions and non-governmental organizations. This approach reflects our commitment to diversify our offerings to meet the evolving needs of our clients. Analyst empowerment is a pivotal part of our strategy. Through comprehensive training and skill enhancement programs, we are equipping our analysts with the capabilities to extend their services to clients in regions like the Middle East and beyond. This may involve investments in specialized courses and certifications from internationally recognized institutions, ensuring our analysts meet the highest standards of expertise. We are also proactively exploring opportunities to identify potential markets where PACRA can contribute to the establishment of credit rating agencies. This could involve technical collaborations or strategic investments, further solidifying our position in the credit rating industry.

In order to create awareness amongst corporates on the importance of credit rating the Company will emphasize the advantages of credit ratings to potential clients, illustrating how they can shape their financial landscape, enhance access to funding, reduce borrowing costs, and improve risk assessment by banks. This approach will promote objective entity assessment of a corporation, allowing management to identify and mitigate potential weaknesses.

**COMPOSITION OF THE BOARD OF DIRECTORS & COMMITTEES:**

The company's board size for the 3-year term commencing on January 1, 2023, was determined to consist of eight members during the 138th Board of Directors meeting, which was duly convened on November 3, 2022. However, during the course of the year, an independent director, and a nominee director of LSE Ventures Limited resigned from the board. The casual vacancy resulting from the resignation director currently remains unfilled.

The current number of Directors is seven (7) as per the following composition:

Male                    7                    Female                    -

The current composition of the Board is as follows:

Independent Directors	03 (1 vacant)
Non-Executive Directors	05
Executive Directors	Nil
Female Director (Non-Executive)	Nil

**LIST OF DIRECTORS AND BOARD MEETINGS**

In the year under review, the Board of Directors convened a total of ten meetings, all of which took place within Pakistan. The attendance record for each Director is as follows:

<b>DETAIL OF MEETINGS ATTENDED BY DIRECTORS DURING THE YEAR ENDED JUNE 30, 2023</b>			
<b>Category</b>	<b>Name of Directors</b>	<b>Remarks if any,</b>	<b>Meetings Attended</b>
Independent Directors	Mr. Tariq Jamil		10
	Mr. Najaf Yawar Khan		9
	Ms. Sadia Khan	Resigned (10-April-23)	1
Nominee Directors	Mr. Omar Khalil Malik	Till (31-Dec-22)	6
	Mr. Ammar- ul- Haq		10



	Mr. Aftab Ahmad	Resigned (11-April-23)	1
	Mr. Muzaffar Ahmad Virk		1
Non-Executive Directors	Mr. Mumtaz Hussain		8
	Mr. Sardar Ali		10
	Mr. Sikandar Afzal		2

The Board has formed the Committees comprising of members given below:

#### **AUDIT AND RISK COMMITTEE (ARC)**

Name	Designation
Mr. Najaf Yawar Khan	Chairman (Independent Director)
Mr. Muzaffar Ahmad Virk	Member (Nominee Director)
Mr. Sardar Ali	Member (Non-Executive Director)

#### **HUMAN RESOURCE REMUNERATION AND NOMINATION COMMITTEE (HRR&NC)**

Name	Designation
Mr. Tariq Jamil	Chairman (Independent Director)
Mr. Ammar ul Haq	Member (Nominee Director)
Mr. Mumtaz Hussain	Member (Non-Executive Director)

#### **INFORMATION TECHNOLOGY STEERING COMMITTEE (ITSC)**

Name	Designation
Mr. Tariq Jamil	Chairman (Independent Director)
Mr. Ammar ul Haq	Member (Nominee Director)
Mr. Mumtaz Hussain	Member (Non-Executive Director)

#### **DIRECTOR'S REMUNERATION**

The Director's fees, meeting fees, and the criteria for their remuneration are outlined in the Director's remuneration policy. Specific information regarding the remuneration disbursed to the Company's Directors can be found in Note 35 of the disclosure.

#### **RISK MANAGEMENT SYSTEM**

The Board of Directors has established a robust and effective risk management system designed to identify, assess, and mitigate to the extent possible risks associated with the attainment of PACRA's strategic goals.

#### **DIVIDEND**

The Board of Directors has recommended a final cash dividend of Rs. 3.45 per share, in addition to the interim dividend of Rs. 6.0 per share already declared and paid, for a total dividend of Rs. 9.45 per share for the year ended June 30, 2023.

#### **PATTERN OF SHAREHOLDING**

The pattern of shareholding of the Company in accordance with the Companies Act, 2017 as of June 30, 2023, is as follows.

Shareholding Pattern		
Shareholders	No. of Shares	Holding %age



LSE Ventures Limited (formerly, LSE Financial Services Limited).	2,683,042	36.00%
Mr. Mumtaz Hussain	2,012,280	27.00%
Mr. Usman Haider	1,006,140	13.50%
Mr. Sardar Ali Wattoo	1,006,141	13.50%
Mr. Muhammad Adnan Afaq	745,290	10.00%
Other Directors	7	0.00%
Grand Total	7,452,900	100.00%

#### AUDITORS

The current auditors of the company, M/s EY Ford Rhodes, Chartered Accountants, have retired and have not expressed their intention for reappointment for the fiscal year FY24. Considering this, the Board has proposed the appointment of M/s BDO Ebrahim Hussain as the statutory/external auditors, pending approval from the members at the upcoming Annual General Meeting of the Company.

#### ACKNOWLEDGEMENT

The Board takes this opportunity moment to extend its heartfelt appreciation and gratitude to the shareholders, employees, and clients for the unwavering trust and confidence they have consistently placed in us. Additionally, we wish to convey our sincere appreciation to the regulatory bodies, namely the SECP (Securities and Exchange Commission of Pakistan) and SBP (State Bank of Pakistan), for their valuable guidance and steadfast support.

For and on behalf of the Board

Usman Haider  
Chief Executive Officer

Date: 09-Oct-2023