



The Pakistan Credit Rating Agency Limited

MCB ARIF HABIB SAVINGS & INVESTMENTS LIMITED

RATING REPORT

	NEW [DEC-17]	PREVIOUS [JUN-17]	REPORT CONTENTS
Entity Rating	AA-	AA-	1. PROFILE & OWNERSHIP 2. GOVERNANCE 3. ASSESSMENT
Outlook	Stable	Stable	4. MARKETING 5. INVESTMENTS 6. CAPITAL 7. PERFORMANCE

DECEMBER 2017

Profile & Ownership

- MCB Arif Habib Savings & Investments Limited (MCBAH) incorporated in August 2000 and listed on the Karachi Stock Exchange, MCBAH is a major player in the mutual fund industry of Pakistan.
- The major shareholders of MCBAH comprise: a) MCB Bank Limited (MCB) [51%], b) Arif Habib Corporation (30%).

Governance

- MCBAH's eight members BoD comprise the company's CEO, two representatives from MCB, two representatives from AHG and three independent members. Mian Muhammad Mansha – Chairman MCB – serves as the Chairman on the board. Mr. Nasim Beg – a representative of AHG – acts as the vice chairman.
- Mr. Muhammad Saqib Saleem is the CEO of the company.

Assessment

- During 9MCY17, MCBAH showed slight increase in its AUM base. The AUMs increased by 6.4% during the mentioned period (Sep17:PKR45, Dec16:PKR48bln). Consequently, the system share registered an increase and was at 7.72% at end Sep-17 (end Dec-16 7.07%).
- Top-10 investor concentration has remained largely the same at 42% reflecting a well-diversified AUM base.
- Category concentration has improved slightly where income based funds represent 52% of the AUMs in Sep-17 compared to 53% in Dec-16.

Marketing

- MCBAH's well-established Business Development department is divided into five key segments: a) Retail, b) Corporate, c) Retirement Funds, d) Financial Institutions, and e) Foreign Business.
- The company actively utilizes social media network to market its funds under the brand name.
- MCBAH intends to diversify geographically to mobilize funds in its equity related funds in low interest rate environment. The management remains focused to strengthen MCBAH's distribution network to make further inroads in the corporate and retail segment.
- The management has successfully branded its Islamic products under a different division, Alhamra, which focuses on Islamic Products.

Investments

- MCB-AH invests significant fund size prescribed by the regulator. The market value of these funds form 76% of equity at end Mar 17 (Mar 16: 82%).
- The investment is classified as long-term (PKR 547mln) and short-term (PKR 656mln). The long term investments are made into Pension funds (Conventional and Islamic).
- The short-term investments are made in a money market funds and directly into government securities.

Capital

- MCBAH has a debt-free capital structure. The company has taken running finance facility, which is obtained from the MCB Bank Limited which is not been utilized up till now. Nevertheless, the company remains well capitalized and the management does not intend to add any debt to its capital structure.

Performance

- During 9MFY17, MCBAH's core revenue – fee income from funds under management constituting 93% of overall revenue – witnessed a decline of 8.5% in comparison to SPLY.
- There was a significant increase in realized and unrealized gains (9MFY17:73mln, 9MFY16: 21mln). However, total expenses increased by 18.09%.
- Consequently profit after tax decreased by 17.3% from PKR 252mln to PKR208mln during 9MFY17.

RATING RATIONALE

The rating reflects MCBAH's strong position in the domestic AMC industry augmented by its robust retail base, strong sponsor support, improved organizational structure, innovative technology and sound franchise value. MCBAH's well-structured decision making process supported by continuous improvement in the overall operating platform along with a diversified fund slate. This has helped the company in maintaining the AUM base despite the dip in the industry due to lack luster stock market performance, hence sustaining its system share. The management has effectively integrated separately developed risk management function with investment decision making process. The company has successfully branded its Islamic products under Islamic division - Alhamra. The company has inducted professional and experienced higher management staff. The rating incorporates MCBAH's association with two prominent business conglomerates of Pakistan -Nishat & Arif Habib Groups.

KEY RATING DRIVERS

The rating is dependent on the company's ability to sustain its market standing by capitalizing on the self and group distribution platform. At the same time, stability of the quality human resource and consistent fund performance – at par or better than peers will bode well for the company.



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BALANCE SHEET

	31-Mar-17 9M FY17	30-Jun-16 Annual	30-Jun-15 Annual	30-Jun-14 Annual
A. EARNING ASSETS				
1. Deposits with Banks	11	38	12	9
2. Placements under Reverse REPO				
3. Investments				
a) Own Funds	1,204	1,214	1,187	957
b) Others				
	1,204	1,214	1,187	957
<i>Total Earning Assets</i>	1,215	1,252	1,199	966
B. NON-EARNING ASSETS				
1. Cash and Bank Balances	1	4	4	2
2. Balance Due from Open-End Funds Under Management	493	486	361	186
3. Advances, Receivables, Deposits and Other Assets	121	93	86	68
4. Fixed Assets	363	340	370	385
	978	923	821	641
<i>Non-Earning Assets</i>				
C. TOTAL ASSETS	2,193	2,174	2,019	1,608
D. BORROWINGS				
<i>Long-term</i>				
1. Banks and Other Financial Institutions	0	0	0	0
2. Listed TFCs	0	0	0	0
2. Sponsors/Others	0	0	0	0
	0	0	0	0
<i>Short-term</i>				
1. Current maturity of long-term borrowing	0	0	0	0
2. Short-term finances	0	0	0	0
	0	0	0	0
<i>Total Borrowings</i>	0	0	0	0
E. OTHER LIABILITIES (Non-Interest Bearing)				
1. Accrued Expenses & Other Liabilities	571	577	460	206
2. Tax Payable	54	47	54	48
	626	625	514	254
<i>Total Other Liabilities</i>				
F. EQUITY				
1. Share Capital	720	720	720	720
2. Reserves:				
a. Capital Reserve	848	829	774	622
b. Revenue Reserve				
c. Accumulated Profit				
	848	829	774	622
<i>Pure Equity</i>	1,568	1,549	1,494	1,342
3. Surplus/(Deficit) on Revaluation of Fixed Assets	0	0	11	12
4. Unrealized gain/(loss) on Revaluation of Investments	0	0	11	12
	0	0	11	12
<i>Total Equity</i>	1,568	1,549	1,505	1,354
G. TOTAL LIABILITIES & EQUITY	2,193	2,174	2,019	1,608



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INCOME STATEMENT

	31-Mar-17 9M FY17	30-Jun-16 Annual	30-Jun-15 Annual	30-Jun-14 Annual
1. Fee-Based Income				
a. Remuneration from Open-end Funds	463	662	601	491
b. Commission from Open-end Funds	7	4	6	1
c. Advisory Fee/Others	26	42	39	19
	497	707	646	512
2. Interest / Mark-up Income				
a. Bank Deposits & Placements	1	2	2	2
c. TFCs & Other Investments	6	23	21	3
	7	25	23	5
3. Other Investment Income				
a. Dividend Income	0	2	4	
b. Gain on Sale of Investments	63	25	99	26
c. Unrealized Gains/(loss) on HFT Investments	10	1	0	40
d. Others				
	73	28	103	66
4. Other Income/loss	15	22	1	4
5. Total Revenue	592	782	773	586
6. Operating Expenses				
a. Personnel Expenses	157	167	167	175
b. Other Operating Expenses	226	265	207	172
	(383)	(432)	(374)	(347)
	209	350	399	239
7. Financial Charges	0	0	6	0
8. Pre-Tax Profit	208	350	393	239
9. Taxes	55	111	114	56
10. Net Income	153	239	279	183
11. Unappropriated Profit / (Loss) Brought Forward	235	214	150	129
12. Adjustments (incl. dep. on revaluation)				
12. Adjustments - Dep. on Revaluation				
13. Available for Appropriations	388	453	429	312
14. Appropriations				
a. Statutory Reserve				
b. Capital Reserve				
c. Revenue Reserve				
a. Cash Dividend	(235)	(234)	(216)	(162)
a. Issue of Bonus Shares				
d. Others	0	17	1	1
	(235)	(217)	(215)	(161)
15. Unappropriated Profit Carried Forward	154	235	214	150



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RATIO ANALYSIS

	31-Mar-17 9M FY17	30-Jun-16 Annual	30-Jun-15 Annual	30-Jun-14 Annual
A. PERFORMANCE				
1. ROE	10.2%	15.7%	19.7%	14.0%
2. ROA	7.1%	11.4%	15.4%	12.1%
3. Fee Income / Total Revenue	84.0%	90.4%	83.6%	87.3%
4. Personnel Expenses-to-Total Revenue	26.6%	21.3%	21.6%	29.8%
5. Cost-to-Total Revenue	64.7%	55.2%	48.4%	59.2%
6. Taxes / Pre-Tax Profit	26.6%	31.6%	29.0%	23.6%
B. CAPITAL STUCTURE				
1. Pure Equity / Total Assets	71.5%	71.3%	74.0%	83.5%
C. LIQUIDITY				
1. Liquid Assets / Total Assets	55.5%	57.8%	59.6%	60.2%
<i>Liquid Assets = Bank Deposits+Reverse Repos+Short-Term Investments</i>				
C. GROWTH				
1. Total Assets	3.1%	7.7%	25.6%	13.9%
2. Pure Equity	9.4%	3.7%	11.3%	6.2%
3. Total Investments	8.5%	2.2%	24.0%	9.5%

CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	
A-		
BBB+	Good credit quality. Currently a low expectation of credit risk.	
BBB	The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	
BBB-		
BB+	Moderate risk. Possibility of credit risk developing.	
BB	There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	
BB-		
B+	High credit risk.	
B	A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	
B-		
CCC	Very high credit risk. Substantial credit risk	
CC	“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.	
C		
D	Obligations are currently in default.	

Outlook (Stable, Positive, Negative, Developing)
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’.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. 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 Outlook of the respective opinion.

Suspension
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.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

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Name of Issuer MCB-Arif Habib Savings & Investments Limited
Sector Asset Management - Entity
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Date	Long Term	Short Term	Outlook	Action
28-Dec-17	AA-	A1+	Stable	Maintain
30-Jun-17	AA-	A1+	Stable	Maintain
11-Mar-16	AA-	A1+	Stable	Maintain
12-Mar-15	AA-	A1+	Stable	Initial

Related Criteria and Research

Rating Methodology Corporate Rating Methodology

Rating Analysts
 Ahmed Sheikh Rai Umar Zafar
ahmed.sheikh@pacra.com rai.umar@pacra.com
 (92-42-35869504) (92-42-35869504)

Rating Team Statement

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