



The Pakistan Credit Rating Agency Limited

## Rating Report

### MCB-Arif Habib Savings and Investments Limited(Entity)

#### Report Contents

1. Rating Analysis
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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Nov-2018	AA-	A1+	Stable	Maintain	-
28-Dec-2017	AA-	A1+	Stable	Maintain	-
30-Jun-2017	AA-	A1+	Stable	Maintain	-
11-Mar-2016	AA-	A1+	Stable	Maintain	-
12-Mar-2015	AA-	A1+	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect the company's strong position in the domestic AMC industry augmented by its growing retail base, strong sponsor support and franchise value, sound organizational structure and robust technological infrastructure. The company's well-structured decision-making process is supported by continuous improvement in the overall operating framework. This coupled with diversified fund slate has helped the company to sustain its market share, despite challenging circumstances in the industry due to lackluster stock market performance. The company has inducted professional and experienced management staff. The company has also formed a corporate sales team to target corporate provident/endowment funds, cash management, and short-term investments. The ratings incorporate the company's association with two prominent business conglomerates of Pakistan, Nishat & Arif Habib Groups.

The ratings are dependent upon the company's ability to sustain its market share. Meanwhile, the stability of the management team and maintaining strong fund performance is important. Any deterioration in the company's liquidity profile and/or reduction in AUMs leading to lower revenues, in turn, profitability, will have negative rating implications.

#### Disclosure

<b>Name of Rated Entity</b>	MCB-Arif Habib Savings and Investments Limited(Entity)
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-18),Methodology   AMC (Jun-18)
<b>Related Research</b>	Sector Study   Asset Management(Jun-18)
<b>Rating Analysts</b>	Farhan Ali   farhan.ali@pacra.com   +92-42-35869504 Shahzaib Khalid   shahzaib.khalid@pacra.com   +92-42-35869504



## PROFILE

**Legal Structure** MCB-Arif Habib Savings and Investments Limited (MCBAH) is listed on the Pakistan Stock Exchange. The Company is licensed by the SECP to operate as financial advisor, asset manager, and pension funds manager.

**Background** The Company was incorporated in August 2000. During June 2011, MCB Asset Management Company was merged into Arif Habib Investments. The objective was to achieve business synergies. After the merger, the name of the merged entity was changed to "MCB Arif Habib Savings and Investments Limited", The company has an asset manager rating of "AM2++" by PACRA.

**Operations** The company manages fifteen open-end mutual funds and two voluntary pension schemes. The company also manages an SMA account with a total worth of ~PKR 32bln at end Jun18.

## OWNERSHIP

**Ownership Structure** The major shareholders of the company include a) MCB Bank Limited (51%) and b) Arif Habib Corporation (30%). The remaining shareholding belongs to the general public (9%), banking & other financial institutions (4%) and others (6%).

**Business Acumen** MCB Bank Limited, the fifth largest bank in Pakistan in terms of asset size, is majority owned by Nishat group, a distinguished business conglomerate of Pakistan. Arif Habib Corporation is the holding company for Arif Habib Group, a renowned group with a diverse portfolio of investments and a strong presence in the financial sector.

**Financial Strength** The sponsors have very strong financial standing. The equity size of MCB Bank Limited is ~PKR153bln as of Dec 17, whereas, equity size for Arif Habib Corporation stood at ~PKR 30.5bln as of June 18.

**Stability** MCB Bank has a credit rating of AAA/A1+ as of June 2018.

## GOVERNANCE

**Board Structure** The Company has an eight members BoD. The board comprises two representatives from MCB Bank, two representatives from Arif Habib Group, three independent directors and the CEO.

**Members' Profile** Mian Muhammad Mansha, Chairman of the board, was presented with Pakistan's civil award, Sitara-e-Imtiaz, for his contributions to industrial development, and is one of the leading businessmen of the country. Mr. Nasim Beg (CA), a representative of Arif Habib Group, has over forty years of professional experience.

**Board Effectiveness** The board actively provides guidance to the company and has set up audit and HR & remuneration committees.

**Financial Transparency** The company's external auditor is "KPMG Taseer, Hadi & Co.".The auditors issued an unmodified opinion on the financial statements for FY18.

## MANAGEMENT

**Organizational Structure** The company has instituted a hierarchical organizational structure for smooth functioning. The company operates through nine main departments, with well-defined functions and segregation of duties.

**Management Team** Mr. Saqib Saleem (CA), the current CEO of the company, posses ~20 years of experience. Mr.Muhammad Asim (MBA, CFA) possessing 14 years of experience, is the company CIO. All other members of the senior management are also highly qualified and well experienced.

**Effectiveness** The company has streamlined its investment decision-making process. Separate Investment Committee (IC) meetings are held for equity and fixed income funds. The proceedings of the meetings are documented in detail in IC minutes.

**Control Environment** The company has developed an in-house unit holder accounting system, which provides live information to fund managers facilitating investment decision making. The company utilizes a dedicated client relationship management (CRM) application for customer services operations. The CRM is also used to monitor the customer services department.

## BUSINESS RISK

**Industry Dynamics** During FY18, the Asset Management industry experienced a meager growth of ~0.4%, as KSE-100 posted a negative return of 10% during the period. Foreign investor's interest seemed low as they kept selling local equities since MSCI rebalancing in the previous year.

**Relative Position** As of August 2018, MCBAH is the 6th largest asset management company in the country having a market share of 7.7%, with AUMs of ~PKR 48bln.

**Revenue** During FY18, the company's fee-based income grew by 8% to ~PKR 723mln (FY17: ~PKR 671mln), constituting 97% of the total income. The majority of the revenue (96%) is derived from AUMs, while remaining is mainly advisory and processing income. The company also generates income on the investment portfolio.

**Profitability** The net margin of the company declined (FY18:17%, FY17:30%), primarily due to loss of investments in FY18.

**Sustainability** The company has formed a corporate sales team to target corporate provident/endowment funds, cash management, and short-term investments. Going forward, the company plans to form a subsidiary offering Sharia-compliant funds, exclusively.

## FINANCIAL RISK

**Risk Profile** The liquidity risk of the company primarily emanates from redemption calls by the client and credit risk associated with investments made in the money market. This can force the company to borrow to meet obligations. At the end of June 18, liquid assets comprised 51% of the total asset base of the company (June 17: 55%). In case of any liquidity risk arising, the company has a running finance facility of PKR 500mln from MCB Bank. The Company is also exposed to market risk due to significant investments made in its own funds. The market value of these funds forms 73% of equity at end June 18 (June 17: 77%). The investments are classified as long-term (~PKR 521mln ) and short-term (~PKR 618mln). All investments have been deployed into the company's own funds.

**Coverages** The company's free cash flows from operations (FCFO) improved to ~PKR 157mln as compared to FY17: ~PKR 113mln. However, remained on the lower side as compared to FY16: ~PKR 200mln.

**Capitalization** The company has a debt-free capital structure and does not intend to add any debt.



**The Pakistan Credit Rating Agency Limited**

PKR Mln

**MCB-ARIF HABIB SAVINGS & INVESTMENTS LIMITED  
BALANCE SHEET**

	30-Jun-18 Annual	30-Jun-17 Annual	30-Jun-16 Annual
<b>A. EARNING ASSETS</b>			
1. Deposits with Banks	19	19	38
2. Placements under Reverse REPO			
3. Investments			
a) Own Funds	1,139	1,216	1,214
b) Others			
<i>Total Earning Assets</i>	1,139	1,216	1,214
	1,159	1,235	1,252
<b>B. NON-EARNING ASSETS</b>			
1. Cash and Bank Balances	0	0	4
2. Balance Due from Open-End Funds Under Management	511	484	486
3. Advances, Receivables, Deposits and Other Assets	178	169	93
4. Fixed Assets	401	375	340
<i>Non-Earning Assets</i>	1,090	1,029	923
<b>C. TOTAL ASSETS</b>	<b>2,249</b>	<b>2,264</b>	<b>2,174</b>
<b>D. BORROWINGS</b>			
<i>Long-term</i>			
1. Banks and Other Financial Institutions	0	0	0
2. Listed TFCs	0	0	0
2. Sponsors/Others	0	0	0
	0	0	0
<i>Short-term</i>			
1. Current maturity of long-term borrowing	0	0	0
2. Short-term finances	0	0	0
<i>Total Borrowings</i>	0	0	0
<b>E. OTHER LIABILITIES (Non-Interest Bearing)</b>			
1. Accrued Expenses & Other Liabilities	626	635	577
2. Deferred tax	55	49	47
<i>Total Other Liabilities</i>	681	684	625
<b>F. EQUITY</b>			
1. Share Capital	720	720	720
2. Reserves:			
a. Capital Reserve	848	860	829
b. Revenue Reserve			
c. Accumulated Profit			
<i>Pure Equity</i>	848	860	829
	1,568	1,580	1,549
3. Surplus/(Deficit) on Revaluation of Fixed Assets	0	0	0
4. Unrealized gain/(loss) on Revaluation of Investments	0	0	0
<i>Total Equity</i>	1,568	1,580	1,549
<b>G. TOTAL LIABILITIES &amp; EQUITY</b>	<b>2,249</b>	<b>2,264</b>	<b>2,174</b>



## The Pakistan Credit Rating Agency Limited

### MCB-ARIF HABIB SAVINGS & INVESTMENTS LIMITED

#### INCOME STATEMENT

	30-Jun-18 Annual	30-Jun-17 Annual	30-Jun-16 Annual
1. Fee-Based Income			
a. Remuneration from Open-end Funds	670	620	662
b. Commission from Open-end Funds	21	7	4
c. Advisory Fee/Others	32	44	42
	723	671	707
2. Interest / Mark-up Income			
a. Bank Deposits & Placements	1	1	2
c. TFCs & Other Investments	0	6	23
	1	7	25
3. Other Investment Income			
a. Dividend Income	1	26	2
b. Gain on Sale of Investments	(5)	89	25
c. Unrealized Gains/(loss) on Investments	(17)	1	1
d. Others			
	(22)	116	28
4. Other Income/loss	40	15	22
<b>5. Total Income</b>	<b>743</b>	<b>808</b>	<b>782</b>
6. Operating Expenses			
a. Personnel Expenses	278	214	167
b. Other Operating Expenses	267	308	265
	(545)	(523)	(432)
7. Financial Charges	198	286	350
	0	1	0
<b>8. Pre-Tax Profit</b>	<b>197</b>	<b>285</b>	<b>350</b>
9. Taxes	72	84	111
<b>10. Net Income</b>	<b>125</b>	<b>201</b>	<b>239</b>
11. Unappropriated Profit / (Loss) Brought Forward	203	235	214
12. Adjustments (incl. dep. on revaluation)			
12. Adjustments - Dep. on Revaluation			
13. Available for Appropriations	328	437	453
14. Appropriations			
a. Statutory Reserve			
b. Capital Reserve			
c. Revenue Reserve			
a. Cash Dividend	(126)	(234)	(234)
a. Issue of Bonus Shares			
d. Others	(0)		17
	(126)	(234)	(217)
<b>15. Unappropriated Profit Carried Forward</b>	<b>201</b>	<b>203</b>	<b>235</b>



## The Pakistan Credit Rating Agency Limited

MCB-ARIF HABIB SAVINGS & INVESTMENTS LIMITED

### RATIO ANALYSIS

30-Jun-18 30-Jun-17 30-Jun-16  
Annual Annual Annual

#### A. PERFORMANCE

1. ROE	8.0%	12.7%	-
2. ROA	5.5%	9.1%	-
3. Fee Income / Total Revenue	97.3%	83.0%	90.4%
4. Personnel Expenses-to-Total Revenue	37.5%	26.5%	21.3%
5. Cost-to-Total Revenue	73.4%	64.7%	55.2%
5. Profit from Associates / Total Revenue	0.0%	0.0%	0.0%
6. Taxes / Pre-Tax Profit	36.7%	29.4%	31.6%

#### B. CAPITAL STRUCTURE

1. Pure Equity / Total Assets	69.7%	69.8%	71.3%
2. Investments / Equity	72.7%	77.0%	78.3%

#### C. LIQUIDITY

1. Liquid Assets / Total Assets	51.5%	54.6%	57.8%
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*Liquid Assets = Bank Deposits+Reverse Repos+Short-Term Investments*

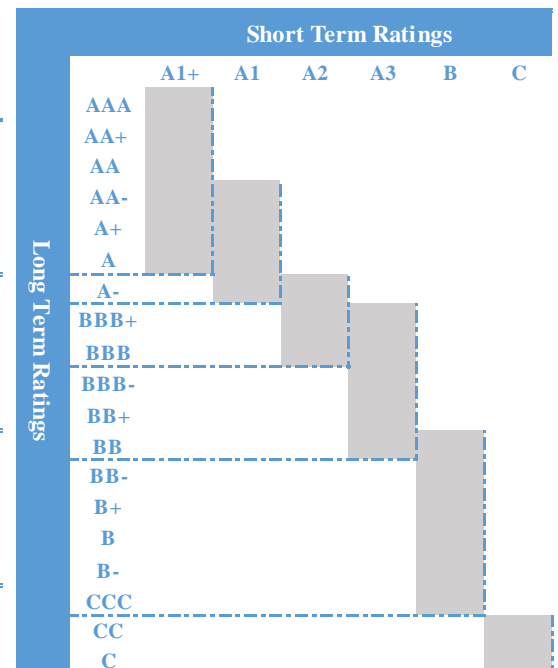
#### D. GROWTH

1. Total Assets	-0.7%	4.1%	-
2. Pure Equity	-0.8%	2.0%	-
3. Total Investments	-6.4%	0.2%	-

## 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> Low expectation of credit risk. 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. 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.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> Substantial credit risk "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.		
<b>D</b>	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.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

### **Rating Team Statements**

(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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- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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)

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- (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.
- (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)
- (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 | 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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