



The Pakistan Credit Rating Agency Limited

Rating Report

Arif Habib Limited | BMR

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Dec-2021	BMR1	-	Stable	Maintain	-
18-Dec-2020	BMR1	-	Stable	Maintain	-
20-Dec-2019	BMR1	-	Stable	Maintain	-
20-Jun-2019	BMR1	-	Stable	Maintain	-
20-Dec-2018	BMR1	-	Stable	Maintain	-
16-Jan-2018	BMR1	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating incorporates Arif Habib Limited's ("AHL" or "The Company") association with astute sponsors 'Arif Habib Group'. The leading position of the Company emanates from its stable market share, established branches, and strong operational control environment. AHL has well experienced management team, sound governance framework and well established compliance protocols which bodes well for the rating. In addition to brokerage, AHL achieved a distinct position in advisory domain in Pakistan, resulting in diversified revenue base and competitive advantage over peers. The Company is maintaining a sizeable number of investors' accounts including Institutional, HNWI's and Retailers. AHL has established rigorous protocols regarding risk assessment by implementing KYC, CDD, AML, CFT and whistle blowing policies. On investor's front, investor's guidelines, multiple account opening mediums and complaint management policies and procedures are in place. The Company offers various value-added services to its clients including an online trading terminal, research portal, and mobile app. The Company is largely exposed to market risk due to its sizeable proprietary trading book. Related risks are deterred through well defined investment policies. During FY21, the Company achieved ~12% market share in the recent bull-run of stock market and posted a five years high profits supplemented by brokerage income and capital gains. The Net Capital Balance of the Company stood at ~PKR 1.9bln with an equity base of ~PKR 4.9bln at end-Jun'21.

Going forward, AHL will continue to focus on growing its retail clientele and branch network, which remains a core pillar of its strategy. On corporate advisory and underwriting front, the Company is expecting revenues from the segment, to depict healthy growth in the ongoing year. The rating is dependent on upholding strong control framework while effectively managing risks, particularly associated with proprietary investment book. Meanwhile, sustainability and improvement in profitability from core income and maintaining market share is critical.

Disclosure

Name of Rated Entity	Arif Habib Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Methodology Broker Management Rating(Jul-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504



Ownership

Ownership Structure Arif Habib Limited ("AHL" or "The Company") is a public listed company established in 2004. Arif Habib Corporation Limited is the major shareholder of the Company, holding 69.44%, Mr. Arif Habib holds 5.44% while Banks, DFI's & mutual fund and others hold 3.76% and General Public hold 21.33%. Arif Habib Corporation Limited is the holding company of Arif Habib group.

Stability The Company continues to enjoy strong support from the sponsoring family.

Business Acumen Arif Habib Group has a diversified investment portfolio and has presence in fertilizer, power, cement, steel, real estate, and financial sectors. The sponsoring family has an established track record, demonstrating strong business acumen.

Financial Strength The un-consolidated profit after tax of the Arif Habib Corporation Limited stood at ~PKR 3,874mln for FY21 while the equity also increased from ~PKR 18bln in FY20 to ~PKR 21bln in FY21.

Governance

Board Structure The Company has a well-composed board. There are seven members, including the CEO Mr. Shahid Ali Habib. Two members are independent and four are non-executive. There is adequate female representation on board, in compliance with Code of Corporate Governance.

Members' Profile Mr. Zafar Alam is the current Chairman of the board. He is a master's degree holder in Nuclear Physics and possesses decades of experience in Investment Banking. Mr. Shahid Ali Habib completed his MBA from IBA Karachi and has a certification in Finance from London School of Economics (LSE). He carries over 22 years of experience in the fields of Securities Brokerage, Banking, Asset Management and Investment Banking.

Board Effectiveness There are three board committees in place – (i) Audit Committee (ii) Risk & Compliance Committee (iii) HR & Remuneration Committee. The board held four meetings during the period, which were attended by the majority of the members.

Financial Transparency The external auditors of the Company are Rahman Sarfaraz Rahim Iqbal Rafiq, they have expressed an unqualified opinion on the financial statements for FY21. The firm is in the A Category of SBP's panel of auditors.

Management

Management Team The Company has a team of seasoned professionals. Mr. Taha Siddiqui (CFO) is an ACCA member and has diversified experience in the fields of Financial, Manufacturing, Trading and Services industries.

Organizational Structure Arif Habib Limited has a functional organizational structure, with eight primary departments and six secondary departments. The primary departments include, i) International brokerage, ii) Domestic brokerage, iii) Inter-bank brokerage, iv) Investment Banking, v) Risk & Compliance, vi) Marketing & business development, vii) IT and viii) Online sales. Heads of the primary departments report directly to the CEO. Clear departmentalization offers efficient use of resources.

Client Servicing The Company offers multiple account opening mediums. Similarly, various channels, including a mobile app, are available to customers to execute and monitor their transactions. The Company has strong client reporting mechanism with account statements and market reports communicated to the clients on regular basis.

Complaint Management An adequate complaint management system is in place. Complaints can be made via e-mail, SMS, and calls.

Extent Of Automation / Integration Two database platforms are installed with full integration between back and front office. The system has the ability to generate timely reports. The system incorporates primary and secondary level protection.

Continuity Of Operations AHL has a detailed disaster recovery plan to ensure the business continuity at the time of disaster. Moreover, backups are maintained on daily basis.

Risk Management Framework The Board of Directors has overall responsibility for the establishment and oversight of Company's risk management framework. All treasury related transactions are carried out within the parameters of these policies.

Regulatory Compliance Risk Management & Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are inline with the applicable policies and procedures.

Business Sustainability

Business Risk The SBP in its recent monetary policy meeting increased the Policy Rate by 150 basis points, and has hinted towards further tightening, which has taken the market by surprise. Not only the quantum of monetary tightening was steeper, it has also raised the Policy Rate expectations going ahead. Subsequent to the MPS announcement, inflation numbers also overshot the market consensus where the CPI has jumped to double digits, clocking in at 11.52% for the month of Nov-2021. The equity market corrected by around 5.5% post the MPS, before recovering slightly towards the end of Nov'21. Considering the extremely attractive valuations, the stock market may perform well resulting in good trading volumes for the industry.

Business Profile The Company possesses significant market share in equity brokerage, and has a strong relationship with leading foreign broker/dealers. AHL has a diversified revenue stream. It has a good mix of foreign, local institutional and high net worth individual clients. Retail side of the Company has also established and penetrated in the market. The Company has a distinct edge over its competitor's by having a strong foothold in investment banking and advisory business. However, in recent times the competition is catching up. One of the revenue streams of the Company pertains to proprietary investments, which make the Company largely exposed to market risk.

Revenue And Profitability Analysis The Company posted net profits of ~PKR: 2.1bln in FY21 (FY20: ~PKR: 60mln). The profit can be attributable to the significant increase in operating revenue by ~119% (SPLY: ~PKR 691mln) on the back of hefty trade volumes on PSX. While capital gain on the sale of investments and unrealized gain on short-term investment also contributed towards profitability. The advisory and consultancy stream of the Company experienced a momentous year as the revenue increased by ~3.3 times. The Company enlisted 6 out of the eight IPOs in CY21.

Financial Sustainability

Credit Risk The Company has developed enhanced due diligence procedures in addition to its KYC for the assessment of client creditworthiness. Applicable policies for leveraged products have been adopted and limits have been defined, which are strictly monitored.

Market Risk The Company maintains proprietary and investment book in different asset classes. All investments are properly managed and monitored according to the Company's investment policy. A dedicated team (including CEO) manages the investments. Cut-off limits have been defined and are properly adhered to. Additionally, the Company has a firm commitment from its Sponsor to buy back strategic investment from short-term portfolio at a time of liquidity needs. The investment book has the risk of conflict of interest, though measures have been taken to mitigate it.

Liquidity Profile At end-FY21, liquid assets of the Company comprised ~0.32x of the total assets, (FY20: ~0.12x). The Company has cumulative bank lines of ~PKR 5.5bln available in case a need arises. The utilized lines were ~PKR 4.2 bln, leaving ample room to borrow.

Financial Risk The Company's Net Capital Balance for end-Jun'21 stood at ~PKR 1.9bln (Jun'20: ~PKR 935mln). Arif Habib finances its investments through short-term debt and internally generated cash-flows.



Arif Habib Limited
Public Listed

Jun-21	Jun-20	Jun-19
12M	12M	12M

A BALANCE SHEET

1 Finances	246	53	129
2 Investments	4,852	5,632	4,292
3 Other Earning Assets	2,517	759	432
4 Non-Earning Assets	857	448	789
5 Non-Performing Finances-net	-	-	-
Total Assets	8,472	6,892	5,642
6 Funding	1,847	825	-
7 Other Liabilities (Non-Interest Bearing)	1,629	2,801	2,725
Total Liabilities	3,476	3,626	2,725
Equity	4,996	3,266	2,918

B INCOME STATEMENT

1 Fee Based Income	1,378	479	679
2 Operating Expenses	(656)	(356)	(397)
3 Non Fee Based Income	1,804	368	(44)
Total Operating Income/(Loss)	2,526	491	238
4 Financial Charges	(133)	(362)	(225)
Pre-Tax Profit	2,393	129	13
5 Taxes	(309)	(69)	(75)
Profit After Tax	2,084	60	(62)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)

Return on Equity (ROE)

5.3%	73.8%	94.6%
106.2%	3.6%	-2.0%

2 Capital Adequacy

Equity / Total Assets (D+E+F)

Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)

59.0%	47.4%	51.7%
13.26	-0.04	0.57

3 Liquidity

Liquid Assets / Total Assets (D+E+F)

Liquid Assets / Trade Related Liabilities

4.7%	3.0%	6.8%
21.6%	24.9%	57.3%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers

Equity Instruments / Investments

13.0%	19.2%	26.2%
2.8%	2.2%	3.6%

Broker Management Rating

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

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

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 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.

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 rating remains suspended for six months, or/and d) 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.

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.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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

Restrictions

- (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)

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.
- (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)

Independence & Conflict of interest

- (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)

Monitoring and review

- (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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent