



The Pakistan Credit Rating Agency Limited

## Rating Report

### Providus Capital (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Aug-2019	A+	A1	Stable	Maintain	-
19-Feb-2019	A+	A1	Stable	Maintain	-
20-Aug-2018	A+	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The entity ratings of Providus Capital (Pvt.) Ltd reflects the robust performance of the company despite depressed equity market conditions. The ratings incorporate the strong business acumen, optimal utilization of in-house investment and research expertise resulting in accumulation of a diversified and liquid investment portfolio. The company funds its investment book using a mix of equity, bank borrowings and internal returns. Lately, the company formed a subsidiary 'Providus Investments (Pvt.) Ltd to carry out business of equity market investments. The ratings also consider better control through technology, sponsors' commitment and prudent management to maintain a minimum buffer of 5% over and above the margin requirements (30-35%) of accumulated bank borrowings. The ratings take further comfort from the company's commitment to limit long term leveraging. Reliance on key individuals remains high. Meanwhile governance framework can be strengthened.

The ratings are dependent on sponsor's continued commitment and adherence to liquidity management policies. Effective investment management and ability to capitalize on growth opportunities to retain strong performance is imperative. Excessive long term as well as short term borrowings leading to higher leverage and/or deterioration in coverages can impact ratings adversely. In addition, deterioration in equity base prolonged distressed performance and/or erosion of buffer margin will lead to downward pressure on ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Providus Capital (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Methodology_Holding Company_FY19(Jun-19)
<b>Related Research</b>	Sector Study   Investment Management(Feb-19)
<b>Rating Analysts</b>	Shahzaib Khalid   shahzaib.khalid@pacra.com   +92-42-35869504

## Profile

**Structure** Providus Capital (Pvt.) Limited was incorporated on January 10, 2017 as a Private Limited Company under the Companies Act, 2017.  
**Background** The shareholders of the company are Mr. Muhammad Jawaid Iqbal and his spouse. Its registered head office is located at Clifton, Karachi.  
**Operations** The company is primarily engaged in the business of capital investments, in particular equity market and other investments.

## Ownership

**Ownership Structure** The Company is 50% owned by Mr. Muhammad Jawaid Iqbal (CEO) and 50% by his spouse. Mr. Muhammad Jawaid Iqbal along with his wife make up the sponsoring family.  
**Stability** Shareholding is settled within family member. A formal succession plan does not exist at this point  
**Business Acumen** The business is being looked after by Mr. Muhammad Jawaid Iqbal. He is CFA and he has professional experience of 25 years mainly in the financial services sector. He has served on the board of companies in the finance, power, fertilizer and steel sector of the country. He was a key figure in setting up ABL Asset Management Company and remained on its board for six years.  
**Financial Strength** Providus Capital (Pvt.) Limited has a strong equity base. The Company has recently formed Providus Investments (Pvt.) Ltd (the Subsidiary Company) of Providus Capital to carry out business of equity market investments.

## Governance

**Board Structure** The Company's board of directors comprises two members, including the CEO, Mr. Muhammad Jawaid Iqbal and an executive director. As there is no independent director on board, Company's governance framework remains adequate. Lack of independent oversight indicates room for improvement in the governance framework.  
**Members' Profile** The board members are seasoned professional having vast experience in equity market and possess strong profiles in educational and professional capacity.  
**Board Effectiveness** The Company conducts board meetings on important matters. The decisions are conveyed and implemented through documentation. There is no committee introduced at the board level. Due to limited size and no independent representation on the board, lack of challenge minimizes effective governance. Four board meetings were held during FY19. The minutes of the meetings capture the agenda of the meetings accurately. However, the minutes are not detailed and do not discuss key business areas such as business performance, business strategy/plan and risk management.  
**Financial Transparency** Kreston Hyder Bhimji & Co Chartered Accountants is the external auditor of the company. The auditor is ranked in the 'A' category by the State Bank of Pakistan. The auditors have expressed unqualified opinion on the financial reports. Currently, the company has not established internal audit or compliance department. These functions are performed by the finance department.

## Management

**Organizational Structure** The organization structure of the company is divided into three functional departments namely i) Finance ii) Research and iii) Fund Management. The research department comprises Head of Research and four analysts which cover the equity market and related activities.  
**Management Team** Mr. Fatig bin Khursheed is a CFA charter holder and a seasoned professional having vast experience in financial research and modelling. Lately, Mr. Qasim Lakhani, CFA, has joined the company as Chief Investment Officer.  
**Effectiveness** The Company does not have any management committee in place. However, the top management meets on a weekly basis to discuss various operational matters.  
**MIS** The Company has implemented an ERP solution, fully integrated with the business functions. This helps the management in decision making by collecting information more efficiently.  
**Risk Management Framework** The company has devised an internal risk management framework to address market, liquidity and credit risk. The company is maintaining an extra 5% buffer above the margin requirements of accumulated bank borrowings, which provides cushion against adverse market movement. The exposure of the investment portfolio is regularly monitored through various techniques.

## Business Risk

**Industry Dynamics** The company's primary function is to invest in equities listed on Pakistan Stock Exchange (PSX). During FY19, KSE-100 index posted a negative return of around ~19% (FY18: ~10%) due to uncertainty on economic front where delay in IMF bailout package, increasing interest rate environment and massive PKR depreciation against dollar ~30% in FY19 dented the investor sentiment. The index witnessed slight recovery after mini-budget of January 2019, though geo-political issues on indo-pak front further dampened the confidence in the market.  
**Relative Position** The segment is relatively new for the financial sector. Globally, "wealth management " for ultra High Net Worth Individuals and family offices are established business segments. Certain corporate entities and individuals with proven track record are engaged in this business.  
**Revenues** The company's revenue emanates from gains on disposal of short term investments, dividend income and re-measurement of investments. The company's revenues have witnessed strong growth since its inception. Providus Capital posted a top line of ~PKR 342mln for 1QFY19 (FY18: 478mln, 2HFY17: 39mln).  
**Performance** The investment book of the company grew by over 300% since its inception in 2HFY17 with strong ROE of ~22%. Despite the poor performance of equity market, the company witnessed a growth in its operating margin as it kept its costs under control.  
**Sustainability** Continued support from sponsors and availability of funding lines from commercial banks are considered critical for the company to sustain its investment position, going forward. The company intends to avail opportunities in the market through investments in equity markets and other avenues.

## Financial Risk

**Credit Risk** The company as a policy, has decided that its short term borrowing will not exceed the long term capital. In this regard, the total debt as compared to its total long term capital stood at ~46% within the limit as at 1QFY19.  
**Market Risk** The company's market risk emanates mainly from the volatility of equity market. Consequently, the company has devised an internal risk management framework to address the market risk. Furthermore, the investments are made by the company after detailed fundamental analysis and economic research. In this regard, the team has developed detailed equity valuation models and presentations on each sector they are invested in.  
**Liquidity And Funding** The company's strong liquidity profile emanates from its investments in listed equities. During FY18, the company funded its investment portfolio via equity (including subordinate loan), long term borrowings and internally generated cash flows. The company's interest coverage remained comfortable with sufficient approved funding lines from various banks.  
**Capitalization** The company has a leveraged capital structure. The borrowings are mainly backed by listed securities that the company invests in with margin available in case prices fluctuate. The company's total debt stood at ~79% (1QFY19) as compared to its total equity.



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**Providus Capital Pvt. Limited**  
**BALANCE SHEET - CUMULATIVE**

	30-Sep-18	30-Jun-18	30-Jun-17
	1QFY19	FY18	2HFY17
<b>A NON-CURRENT ASSETS</b>			
1 Operating Fixed Assets - Owned and Leasehold	-	-	-
2 Intangible Assets	-	-	-
3 Other Non-Current Assets (Ijarah, Deposits with cust. & Vendors)	-	-	-
<i>Non-Current Assets</i>	-	-	-
<b>B INVESTMENTS</b>			
1 Associates / Subsidiaries			
a. Equity Investment in Associated Company	39	39	50
b. Loan to Associated company	-	-	-
	<b>39</b>	<b>39</b>	<b>50</b>
2 Investment Property	-	-	-
3 Other Investments			
a. Equity Securities	4,258	5,038	1,257
b. Debt Securities	-	-	-
	<b>4,258</b>	<b>5,038</b>	<b>1,257</b>
<i>Investments</i>	<b>4,296</b>	<b>5,076</b>	<b>1,307</b>
<b>C CURRENT ASSETS</b>			
1 Related Party Receivables	10	10	-
2 Cash exposure, advances and profits held by PSX	68	103	68
3 Others (includes dividend receivable)	48	-	-
4 Advance tax	-	-	-
5 Cash and Bank Balances	6	6	2
<i>Current Assets</i>	<b>131</b>	<b>119</b>	<b>71</b>
<b>D TOTAL ASSETS (A+B+C)</b>	<b>4,427</b>	<b>5,195</b>	<b>1,378</b>
<b>E CURRENT LIABILITIES</b>			
1 Current Maturity of Long Term Debt	-	-	-
2 Short Term Borrowings	1,264	2,530	200
3 Trade Payables	138	4	2
4 Other Current Liabilities	136.2	274.3	2
5 Provision for Taxation	35	15	-
6 Dividend Payable	-	-	-
<i>Current Liabilities</i>	<b>1,573</b>	<b>2,824</b>	<b>203</b>
<b>F NON-CURRENT LIABILITIES</b>			
1 Borrowings	523	523	-
2 Due to Associates	-	-	-
3 Deferred Tax	78	48	-
<i>Non-Current Liabilities</i>	<b>601</b>	<b>570</b>	<b>-</b>
<b>G NET ASSETS (D-E-F)</b>	<b>2,254</b>	<b>1,800</b>	<b>1,174</b>
<b>H SHAREHOLDERS' EQUITY</b>			
1 Ordinary Share Capital	20	20	10
2 Preference Share Capital	-	-	-
3 Share Premium Account	280	280	-
4 Revaluation Reserve			
a. Fixed Assets	-	-	-
b. Investments	250	329	(58)
	<b>250</b>	<b>329</b>	<b>(58)</b>
5 Subordinated Loan	822	822	1,195
6 Unappropriated Profit	882	349	28
<i>Shareholders' Equity</i>	<b>2,254</b>	<b>1,800</b>	<b>1,175</b>

Notes:



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**Providus Capital Pvt. Limited**

**PROFIT & LOSS ACCOUNT**

	30-Sep-18	30-Jun-18	30-Jun-17
	1QFY19	FY18	2HFY17
<b>A Turnover</b>			
<i>Capital gain and remeasurement of equity investments</i>	289	353	39
<i>Dividend Income</i>	53	125	-
<b>B Operating Costs</b>	-	-	(0)
<b>C Gross Profit</b>	342	478	39
<b>D Operating Expenses</b>			
1 Administrative and General Expenses	(10)	(41)	(3)
2 Selling and Marketing Expenses	-	-	-
	(10)	(41)	(3)
<b>E Operating Profit / (Loss)</b>	332	437	36
<b>F Other Income / Expenses</b>			
<b>Recurring Non-Core</b>			
5 Interest Income	-	1	-
	-	1	-
<b>G Profit / (Loss) before Non-Recurring Impact</b>	332	438	36
<b>Non-Recurring Non-Core</b>			
1 Profit/(Loss) on Sale of Assets	-	-	-
2 Profit/(Loss) on Sale of Investments	-	-	-
3 Surplus / (Deficit) on revaluation	-	-	-
4 Exchange Gain (Loss)	-	-	-
5 Other Income/expense	-	-	-
6 Extraordinary Items	-	-	-
	-	-	-
<b>H Profit / (Loss) before Financial Charges</b>	332	438	36
<b>I Financial Charges</b>			
1 Interest Expense	(61)	(74)	(4)
<b>J Profit / (Loss) before Taxation</b>	272	364	33
<b>K Taxation</b>	(87)	(43)	(6)
<b>L Net Income / (Loss)</b>	185	321	27



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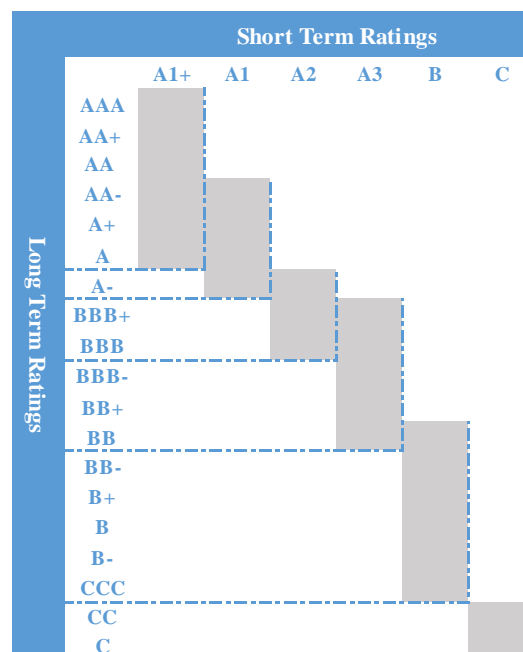
**Providus Capital Pvt. Limited**  
**RATIO ANALYSIS- CUMULATIVE**

	30-Sep-18	30-Jun-18	30-Jun-17
	1QFY19	FY18	2HFY17
<b>A EARNINGS/PROFITABILITY</b>			
<i>Turnover (PKR mln)</i>	289	353	39
1 Turnover Growth (for the period)	-18.1%	798.0%	-
2 Operating Margin	97.2%	91.5%	92.5%
3 Pre-Tax Profit Margin	79.5%	76.1%	84.3%
7 Effective Tax Rate	31.8%	11.8%	17.2%
4 Pre-Tax Return on Equity	13.4%	24.5%	5.6%
5 Return on Assets (ROA)	3.9%	9.8%	4.0%
6 Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	137.3%	77.1%	-89.9%
7 Cash Conversion Efficiency (FCFO/Sales)	87.8%	86.1%	79.0%
<i>DuPont Analysis</i>			
8 Return on Equity (ROE)	9%	22%	5%
9 Net Profit Margin	54.2%	67.2%	68.8%
10 Leverage (Average Total Assets / Average Total Equity)	237.4%	220.9%	117.3%
11 Asset Turnover (Sales / Average Total Assets)	7.1%	14.5%	5.7%
<b>B WORKING CAPITAL MANAGEMENT</b>			
1 Short-term Trade Leverage (1- (STB)/ Net Trade Assets OR (Liabilities) )	69%	50%	n.a
2 Short-term Total Leverage (Net Current Assets - STB) / Current Assets	64%	45%	n.a
3 Current Ratio (Total CA/Total CL excluding CMLTD)	2.8	1.8	6.5
<b>C COVERAGES</b>			
1 EBITDA/Gross Interest	5.5	6.1	10.1
2 FCFO/Gross Interest	5.0	5.6	8.5
3 FCFO/Gross Interest+CMLTD	5.0	5.6	8.5
4 FCFO/Gross Interest+CMLTD+Uncovered Short Term Borrowings	5.0	5.6	8.5
<b>D CAPITAL STRUCTURE</b>			
1 Total Debt/Total Debt+Equity	44.2%	62.9%	14.5%
2 Total Debt/Total Debt+Equity (net of rev. surplus)	44.2%	62.9%	14.5%
3 Total Debt/Total Equity	79.3%	169.6%	17.0%
4 Current Debt/Total Debt	70.7%	82.9%	100.0%
5 Current Debt/Total Long Term Capital	45.5%	108.9%	17.0%

## 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+	<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.	A1	A strong capacity for timely repayment.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A+	<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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
BBB+	<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.		
BBB			
BBB-			
BB+	<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.		
BB			
BB-			
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			
B-			
CCC	<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.		
CC			
C			
D	Obligations are currently in default.		



<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, 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.	<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 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.	<b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.
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**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)
- (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)

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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)
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- (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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