



The Pakistan Credit Rating Agency Limited

## Rating Report

### AL Habib Asset Management Limited (Formerly: Habib Asset Management Limited)

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Aug-2023	AM2+	-	Stable	Maintain	-
12-Aug-2022	AM2+	-	Stable	Upgrade	-
15-Sep-2021	AM2	-	Stable	Maintain	-
15-Sep-2020	AM2	-	Stable	Maintain	-
26-Jun-2020	AM2	-	Stable	Upgrade	-
26-Dec-2019	AM3+	-	Stable	Maintain	-
27-Jun-2019	AM3+	-	Stable	Maintain	-
28-Dec-2018	AM3+	-	Stable	Maintain	-
30-Jun-2018	AM3+	-	Stable	Maintain	-
22-Dec-2017	AM3+	-	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect AL Habib Asset Management Limited's ("AHAML" or the "Company") strong AUMs base in the domestic industry, supported by i) structural investment process, ii) sound governance structure and iii) experienced and qualified management. The rating also incorporates the Company's association with a well-established large sized bank which is one of the dominant players in banking sector. Since Jun'22, the overall industry has shown a significant growth by 28.4%, while AHAML in line with the industry has shown growth by ~28.3% maintaining the market share of the company at 4.0% as at end Jun'23 as the market grew on the same pace. The Company follows risk averse approach to generate revenues, tilting the AUMs concentration towards money market funds with accumulative fund size of PKR 50.9bln contributing 79.7% of total AUMs depicting high concentration in a single fund. At the AMC level, the top ten investor concentration is also on the high side. The granularity and stickiness of investor's base would bode well for the rating. The asset manager further diversified its fund slate by introducing plans in conventional and shariah Fixed Rate / Return categories along with a government securities fund in the conventional income category, increasing the total number of open-ended funds to twelve. Most of the funds performed better than the benchmarks and were in line with the industry. The asset manager also synergizes through access to the large branch network of Bank AL Habib and its strong brand name. However, the retail mix is inclusive of HNWIs. Furthermore, the Company also synergizes its research function with the sponsor bank. On the technological side, improvement of investor reporting is achieved through the revamped website and launch of mobile App.

On financial profile, the core income has shown an increase of 109.6% and stood at PKR 98.3mln at end of 1QCY23 (1QCY22: PKR 46.9mln) attributable to management fees from money market categories. The Company reported a net profit of PKR 70.7mln during 1QCY23 (1QCY22: PKR 28.1mln). The Company's equity stood at PKR 1,001mln at end Mar'23 (Dec'22: PKR 931mln & Jun'22: PKR 812mln), comfortably meeting the minimum regulatory capital requirement of PKR capital 230mln.

Going forward, growing AUMs, enhanced and stable market share and augmenting equity through internally generated funds would remain imperative to the assigned rating. Maintaining strong fund performance, strengthening systems and adhering to robust investment process is critical.

#### Disclosure

<b>Name of Rated Entity</b>	AL Habib Asset Management Limited (Formerly: Habib Asset Management Limited)
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Asset Manager Rating
<b>Applicable Criteria</b>	Assessment Framework   Asset Manager Rating(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Asset Managers(Jun-23)
<b>Rating Analysts</b>	Muhammad Azmat Shaheen   azmat.shaheen@pacra.com   +92-42-35869504



## Profile

**Structure** AL Habib Asset Management Limited ("AHAML" or the "Company"), was incorporated in September 2005, as a public unlisted company.

**Background** The Company is financial arm of Bank AL Habib Limited (AAA rated bank) and Habib Group.

**Market Share** AL Habib Asset Management Limited has a modest but growing standing in the Asset Management industry. The Company's market share has remained at 4.0% at end Jun'23 (SPLY: 4.0%).

**Diversification Of Fund Mix** The Company is currently managing a product slate of Nine open-end funds in multiple categories. The Company has also launched pension fund to enhance the fund slate and increase product diversification.

**Investor Concentration** At end Jun'23, the average top 10 investors concentration remains high at 64%. While the average related party holdings were 35%.

## Ownership

**Ownership Structure** The Company is wholly owned subsidiary of the Bank AL Habib Limited.

**Business Acumen** The Company's sponsor, Bank AL Habib, is one of the prominent banks in the conventional banking sector. The Bank has a widespread network of more than 1100+ branches all across Pakistan. The strong presence of sponsors in the financial sector will be beneficial for the Company.

**Financial Strength** Bank AL Habib has long term rating of AAA and short term rating of A1+. The reported equity of the Bank was PKR 89.5bln with PAT of PKR 10.5bln at end Mar'23. The Bank has already injected additional capital and has a very strong capacity to provide further support if needed.

## Governance

**Board Structure** Currently, the Board of Directors comprises six members including the CEO. Three non-executive, two independent, and one executive director make up the board.

**Members' Profile** Mr. Abbas D. Habib is the chairman of the board, also the chairman of Bank Al Habib Limited, he is a Fellow Member of the Institute of Bankers Pakistan, having a rich experience of over 40 years in commerce, industry and banking in local and international environment. Overall, the board has a mix of local and foreign banking industry and financial services expert

**Board Effectiveness** The board actively provides guidance and has setup audit and HR committees to help the Company in smooth operations and keeping check on relevant activities.

**Transparency** The external auditor of the the Company is M/S EY Ford Rhodes, which falls under 'A' category of SBP panel of auditors.

## Management

**Organizational Structure** The Company has a well-designed and formalized organizational structure. It operates through five main departments, all directly reporting to the CEO. The management intends to streamline the organizational structure to maximize efficiencies.

**Management Team** The CEO, Mr. Kashif Rafi, holds an MBA in Finance from IBA and has established track record in the AMC industry spanning over 20 years senior level positions in top AMCs. The COO, Mr. Zahid Hussain Vasnani, is a Professional Accounting Affiliate from ICAP. He has vast experience in financial services and capital markets. They are supported by a qualified and experienced team.

**Technology Infrastructure** The Company has procured Asset Connect, a widely used IT system in the asset management industry. The software is integrated and comprises basic modules: (1) Unit Holder Module, (2) Portfolio Module, and (3) General Ledger (GL) Module.

**Control Environment** The Company has devised detailed policies for IT, operations, research and risk management. The Company uses excel based models to monitor the exposure limits and margins.

## Investment Risk Management

**Credit Risk** To monitor credit risk, internal assessment modules are in place with a combination of qualitative and quantitative analysis. Excel based credit risk scorecards are being used to provide statistical estimates for counter party credit risk.

**Liquidity Profile** The risk management department monitors the liquidity profile of the Company. Sufficient liquidity is maintained by investing a significant portion of funds in liquid avenues

**Market Risk** The Company has set appropriate metrics to measure exposure to market risk factors. Excel-based financial models are being used to measure the sensitivity of the portfolio instruments due to movements in interest rates. The exposure limits applicable to interest-bearing securities are regularly reviewed and reported to the management.

## Portfolio Management

**IC Composition** The Company's investment committee comprises of six members including the CEO, COO, Risk Officer and two Fund Managers

**Effectiveness** The IC formally meets on fortnightly basis in order to take investment decisions. The composition and performance of the IC is considered adequate. Further strengthening of investment process for consistent fund performance is important.

**Investment Research And Analysis** The research department of the Company comprises of two Research Officer. The research function is presided by the CEO. The department uses excel based models for equity valuation. Fortifying research function, in line with peers, for larger coverage will bode well for the Company. Furthermore, the Bank's research synergies have also been used for market analysis.

## Customer Relationship

**Investor Services** The Company is providing sound services to its clients. For the ease of investors, the Company has introduced an online chat facility where the investors can ask investment related questions, seek guidance and make a complaint. The Company has launched an online redemption module to facilitate its customers in making online transactions. Currently, AL Habib Asset Management Limited does not have an mobile app facility. However, the Company is in the process to launch it soon.

**Investor Reporting** The AMC publishes FMRs on its website in a timely manner. The website is also used as a reporting platform for dissemination of information pertaining to the Company, its management, NAV history, fund performance, product characteristics and other important announcements.

**Distribution And Sales Network** The Company has a modest distribution and sales network. The Company plans to leverage Bank AL Habib's vast branch network to increase its outreach. Effective utilization of this platform for visibility and AUM growth will determine the Company's ability to increase its market share.

## Performance

**Asset Under Management** AL Habib Asset Management Limited's AUM's significantly increased by 39.5% to PKR 69.9bln at end Jul'23 (Jun'22: PKR 50.1bln). This growth is predominantly driven by both conventional and Islamic money market categories. Diversifying fund slate to reduce dependence on single fund will be critical, although VPS fund has also been launched on 30-Jun'22. The majority of the funds performed better than the benchmarks and industry averages. The Equity funds of AHAML have beaten entire market by performing better than industry average.

**Asset Manager** The core income has shown an increase of 108% and was recorded at PKR 132.5mln during 1QCY23 (1QCY22: PKR 63.6mln). The Company reported net profit of PKR 70.7mln in 1QCY23 (1QCY22 : PKR 28.1mln). The Company's equity stood at PKR 1,001mln at end Mar'23 (Dec'22: PKR 930.6mln), comfortably meeting the minimum regulatory capital requirement of capital PKR 230mln.

Fund's Performance   Al-Habib Funds																
Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR "mln")						Returns   May'22-May'23					Performance ranking / Stability Ratings	
				Growth % Since Jun'22	Jul'23	Jun'23	Mar'23	Dec'22	Jun'22	Dec'21	Return	Ind. Avg.	Bench.	Fund vs. Industry		Fund vs. Bench.
1	AL Habib Cash Fund	Money Market	38.0%	13.8%	26,068	24,870	23,589	39,064	22,912	28,882	17.0%	17.1%	16.4%	0.0%	0.7%	AA+ (f)
2	AL Habib Islamic Cash Fund	Islamic Money Market	23.3%	58.1%	16,022	13,806	13,225	12,654	10,134	451	16.3%	12.5%	5.9%	3.8%	10.4%	AA+ (f)
3	AL Habib Money Market Fund	Money Market	13.3%	197.4%	9,148	8,237	4,982	9,402	3,076	452	17.0%	14.8%	16.4%	2.2%	0.6%	AA+ (f)
4	AL Habib Islamic Income Fund	Shariah Compliant Income	7.6%	-38.4%	5,188	5,149	5,106	6,177	8,418	6,505	15.0%	13.7%	5.8%	1.3%	9.2%	AA (f)
5	AL Habib Islamic Savings Fund	Shariah Compliant Income	7.2%	48.8%	4,973	4,407	3,783	3,709	3,342	1,804	15.6%	13.7%	5.7%	1.9%	10.0%	AA (f)
6	AL Habib Income Fund	Income	4.8%	105.4%	3,325	2,905	2,202	2,831	1,619	1,614	17.0%	15.6%	17.8%	1.4%	-0.8%	AA (f)
7	AL Habib Islamic Stock Fund	Shariah Compliant Equity	0.5%	5.0%	318	298	273	271	303	310	-0.4%	-4.7%	1.9%	4.3%	-2.2%	3 Star
8	AL Habib Asset Allocation Fund	Asset Allocation	0.2%	5.1%	108	106	104	103	103	108	4.5%	3.4%	4.4%	1.1%	0.1%	3 Star
9	AL Habib Stock Fund	Equity	0.2%	-0.5%	120	113	125	104	120	312	-6.5%	-6.1%	0.5%	-0.4%	-7.0%	2 Star
10	AL Habib Islamic Munafa Fund Plan II	Shariah Compliant Fixed Rate / Return	0.6%		399	395	-	-	-	-						
11	AL Habib Fixed Return Fund Plan 3	Fixed Rate / Return	0.0%		-	1,051	-	-	-	-						
12	AL Habib Fixed Return Fund Plan 4	Fixed Rate / Return	1.0%		655	668	-	-	-	-						
13	AL Habib Fixed Return Fund Plan 5	Fixed Rate / Return	1.1%		752	745	-	-	-	-						
14	AL Habib Fixed Return Fund Plan 6	Fixed Rate / Return	1.6%		1,119	1,109	-	-	-	-						
15	AL Habib Fixed Return Fund Plan 7	Fixed Rate / Return	0.6%		379	-	-	-	-	-						
16	AL Habib Government Securities Fund	Income	0.1%		100	-	-	-	-	-						
Sum/Average:			100%	37.3%	68,672	63,858	53,389	74,314	50,026	40,438						-

### Asset Manager Rating

An independent opinion on an asset manager's expertise, quality of services and potential vulnerability to investment management and operational challenges

Scale	Definition
AM1	<b>Very high quality.</b> Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.
AM2++ AM2+ AM2	<b>High quality.</b> Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.
AM3++ AM3+ AM3	<b>Good quality.</b> Asset manager meets investment management industry standards and benchmarks.
AM4++ AM4+ AM4	<b>Adequate quality.</b> Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.
AM5	<b>Weak.</b> Asset manager does not meet the minimum investment management industry standards and benchmarks.

<p><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'.</p>	<p><b>Rating Watch</b> 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</p>	<p><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.</p>	<p><b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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(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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(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 | Clause 11-(A)(p).

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(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

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(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)

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(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)

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(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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