



The Pakistan Credit Rating Agency Limited

Rating Report

Habib Asset Management Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
15-May-2017	AM3+	-	Stable	Maintain	-
08-Jun-2016	AM3+	-	Stable	Harmonize	-
31-Mar-2016	AM3	-	Stable	Maintain	-
09-Jun-2015	AM3	-	Stable	Maintain	-
25-Jun-2014	AM3	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects the Company's modest market share, adequately structured investment process, reasonably experienced management, and limited fund slate. The Funds performance was below average considering the fact that majority of the funds could not meet the benchmark, except for the First Habib Islamic Income Fund. The profitability of the Company remains subdued due to low revenue and relatively high expenses. The equity base of the Company is ~PKR 177mln at end Sep-19, which currently is below the regulatory requirement. The occurrence of continued losses has eroded the Company's equity. The rating takes comfort from the proposed acquisition of the Company by Bank Al Habib, which is in the process of increasing its shareholdings to 100%, by acquiring the remaining 70% shareholding from the Habib family. The Bank plans to inject capital in the Company to fulfill the minimum regulatory capital requirement of PKR 230mln. Changes are expected in the board and management team as a result of this acquisition. The Company is expected to have synergic benefits from its association with Bank Al Habib.

The rating is dependent on the Company's ability to capitalize on synergies emanating from association with Bank Al Habib through increased market share. Diversification of the fund slate and maintaining strong performance of funds will be critical. Meanwhile, upholding high governance standards and strengthening of risk management is crucial for the rating.

Disclosure

Name of Rated Entity	Habib Asset Management Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology AMC (Jun-19)
Related Research	Sector Study Asset Manager(Jun-19)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Profile

Structure Habib Asset Management Limited ("HAML" or "The Company"), was incorporated in September 2005, as a public unlisted company.
Background The Company is financial arm of Bank Al Habib Limited (AA+ rated bank) and Habib Group.
Market Share HAML has a modest standing in the Asset Management industry. The Company has a market share of ~1% at end Sep-19. (SPLY: ~0.7%)
Diversification Of Fund Mix The Company is currently managing a product slate of six open-end funds in multiple categories. Going forward, the Company plans to launch pension funds in order to increase the diversification of funds.
Investor Concentration The average top 10 investors concentration remains high at ~ 85% in the six funds of the Company. The average related party holdings were ~1% at end Sep-19.

Ownership

Ownership Structure Bank Al Habib is in the process of acquiring 100% stake of the Company (currently 30%), by acquiring the remaining 70% shareholding from the Habib family.
Business Acumen The Company is currently part of the Habib group, which is one of the oldest and a distinguished name in Pakistan's banking, insurance, sugar and energy sectors. Additionally, Bank Al Habib has sustained high performance, exceptional asset quality, satisfactory financial profile and healthy liquidity. The Bank has an experienced management team and prudent risk management policies. The Company is expected to benefit from association with Bank Al Habib post acquisition.
Financial Strength Building on decades of professional experience, sponsors have a strong financial foundation emanating from the well diversified portfolio business of Habib group. Additionally, Bank Al Habib is one of the largest banks of Pakistan. The Bank holds ~6% share in banking industry's deposits. Bank Al Habib operates with a network of 751 branches/sub-branches, including 78 Islamic banking branches at end-Sep19 with an equity base of PKR 55bln.

Governance

Board Structure The Company is expecting changes in the board structure as a result of the 100% shareholding acquisition by Bank Al Habib. Currently, the Board of Directors comprises six members including the CEO. Three non-executive, two independent, and one executive director make up the board. Mr. Saeed Allahwala replaced Mr. Liaquat Habib Merchant as an Independent Director in CY19, and Mr. Aun M. Habib also joined the Board as a non executive director representing the Habib Group.
Members' Profile The Board of Directors is chaired by Mr. Ali Raza D. Habib, who possesses decades of experience in the financial industry. Apart from HAML, he is also presently serving on the Boards of Bank AL Habib Limited and Habib Sugar Mills Limited.
Board Effectiveness The board actively provides guidance to the Company and has setup audit and HR committee to help the Company in smooth operations and keeping check on relevant activities.
Financial Transparency The Company has established an in-house internal audit department, which reports to the audit committee. The internal audit assignment encompasses the review of internal control system of the Company. The Company's external auditors are Ernst & Young. They provided an unqualified opinion on the Financial Statements for FY19.

Management

Organizational Structure The Company has a well-designed and formalized organizational structure. It operates through ten main departments, out of which nine directly report to the CEO.
Management Team The senior management team of HAML comprises of qualified and experienced professionals. The CEO, Mr. Imran Azim, has more than three decades of professional experience in the mutual fund industry. He holds Masters in Business Administration. Changes are expected in the management going forward, with new strategy to optimize the Company's operations.
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 fund assets 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 five members including the CEO, COO, CFO 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.
Investment Research And Analysis The research department of the Company only comprises of the Research Officer. The research function is presided by the CEO. The department uses excel based models for equity valuation.

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, HAML does not have an app facility.
Investor Reporting The AMC publishes FMR on its website in a timely manner. The website is also used as a reporting platform for dissemination of information pertaining to the Company, Management, NAV history, fund performance, product characteristics and other important announcements.
Distribution And Sales Network The Company has a modest distribution and sales network that needs strengthening. Currently, the Company does not have any distribution agreement with Bank Al Habib Limited. On the back of the acquisition by Bank Al Habib, sales network of the Company is expected to expand.

Performance

Asset Under Management HAML's AUM's increased significantly to stand at ~PKR 5.56bln at end Sep-19. (Dec-18: ~PKR 3.79bln, Sep-18: ~PKR 4.47bln). The major factor in the increase in AUM's was the influx of investments in the First Habib Islamic Income Fund, the only fund of the Company that generated returns greater than its benchmark and industry average.
Asset Manager HAML reported net loss of ~ PKR 60.17mln in FY19. (FY18 : ~PKR -56.73mln, 1QFY20: ~PKR -10.45mln). The Company's equity stood at ~PKR 177mln at end Sep-19, which does not meet the minimum regulatory capital requirement. Once the acquisition is complete, Bank Al Habib plans to inject capital of PKR 450mln in order to help the Company fulfill the minimum regulatory capital requirement. This action is expected to bode well for capitalization and any expansion plans.

Fund's Performance Summary: Habib Asset Management Limited

Sr. No	Fund Name	Category	Assets Under Management			Return Sep-19 (Rolling 12 months) (%)	Benchmark Return Sep-19 (Rolling 12 months) (%)	Top Ten Investor Concentration (%)	Performance Ranking / Stability Rating
			Sep'19 (PKR mln)	Jun'19 (PKR mln)	Sep'18 (PKR mln)				
1	First Habib Asset Allocation Fund	Asset Allocation	104	101	165	-12.75%	-8.08%	98.24%	3-Star
2	First Habib Cash Fund	Money Market	2,040	2,205	2,921	10.29%	10.36%	67.96%	AA (f)
3	First Habib Income Fund	Income	688	733	932	9.66%	11.87%	80.24%	AA- (f)
4	First Habib Islamic Income Fund	Shariah Compliant Income	2,525	110	193	8.08%	4.46%	98.96%	A (f)
5	First Habib Islamic Stock Fund	Shariah Compliant Equity	103	101	111	-24.83%	-26.12%	85.35%	4-Star
6	First Habib Stock Fund	Equity	104	104	150	-22.04%	-19.67%	78.31%	3-Star
	Total AUM		5,564	3,354	4,472				

Asset Manager Rating Scale & Definitions

An independent opinion on the quality and expertise deployed by an asset management company

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

<p>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’.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of some material identifiable event. 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.</p>	<p>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.</p>	<p>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 surveill the opinion due to lack of requisite information</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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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(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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