



The Pakistan Credit Rating Agency Limited

Rating Report

AWT Investments Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Aug-2021	AM3++	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating reflects modest positioning of AWT Investments Limited ("AWTIL" or the "Company"). The prominent business acumen of the sponsor bodes well for the rating. The rating is supported by a structured investment process, sound governance structure, proficient and qualified management. The Company is also strengthening its foot prints in the competitive investment advisory domain, The management is also planning to diversify its product slate by launching hybrid REIT schemes and private equity funds. The AUMs' profile of the Company remained stagnant with average market share ~0.2% during FY21. The retail clientele under SMA portfolio constitutes ~68% reflecting granularity. The association of SMA spans an average from 1 year to 3 years, while the portfolio mainly comprises of discretionary SMAs. Since Jun'20, the Company have shown a healthy growth of ~100% in SMA portfolio. The Company is in the process of completion of an in-house owned Software Solution for the Investment Advisory business which will further solidify its position in the market. Previously, the Company is in losses on account of declining management fee, but over the time, the fee has been improved on the account of advisory business, the Company has reported a net profit of ~PKR 5.4mln in Mar'21 (Jun'20: ~PKR -39mln). The Company's equity stood at ~PKR 233mln at end Mar'21. The conversion of losses to profits is itself indication of efficiency of management and its commitment to bolstering bottom-line.

The rating is dependent on the Company's ability to strengthen its market position. At the same time, stability in key human resource, structured improvement in risk management framework and success of initiatives to increase retail AUM will remain crucial for the rating.

Disclosure

Name of Rated Entity	AWT Investments Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology Asset Manager Rating (Jun-21)
Related Research	Sector Study Asset Managers(Jun-21)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@pacra.com +92-42-35869504



Profile

Structure AWT Investments Limited ("AWTIL" or the "Company") is a public unlisted company incorporated in August 2011.

Background The Company was registered as an Asset Management Company and Investment adviser under the Non-Banking Finance Companies Regulations by the Securities and Exchange Commission of Pakistan (SECP). Head office of the company is situated in Rawalpindi.

Market Share The market share of the company stood at 0.2% since Jun'20.

Diversification Of Fund Mix The Company offers investment solutions for both conventional and Islamic markets. At FY21, AWTIL is offering 4 Funds in Equity and Fixed Income Category, in order to diversify its fund slate, it has converted the asset allocation fund to money market category. It would soon be launched, the PACRA has assigned initial rating of "AA+" to AWT Money Market Fund.

Investor Concentration The average Top 10 investor concentration at Mar'21 is ~79% as compared to ~41% at Jun'20 and the average related party holding represents ~18% of total AUMs.

Ownership

Ownership Structure AWTIL is a wholly owned subsidiary of Army Welfare Trust (AWT).

Business Acumen The assigned rating takes into account sound profile of the existing sponsor, AWT, which has more than 4 decades of experience in the financial services sector, operating companies under the "Askari" brand in banking, insurance, leasing, financial services and asset management industries.

Financial Strength The financial strength of the sponsor, the Askari Group of Companies, remains strong due to its diversified profitable businesses. The support of sponsor as indicated by equity injection of Rs. 100m in FY19 and another injection of Rs. 100m in January 2020 in the form subordinated loan to ensure compliance of AWTIL with Minimum Equity Requirement (MER) for Asset Management and Investment Advisory Companies.

Governance

Board Structure The Company's board consists of six members, including the CEO. The board comprises five non-executive and one executives director.

Members' Profile The Chairperson, Lt. Gen Naveed Mukhtar is a graduate of Pakistan Military Academy; The Cavalry School, France; Command and Staff College Quetta; Joint Command and Staff College, Philippines; National Defense University, Pakistan; and The United States Army War College. Naveed Mukhtar has served in a variety of command and staff positions at nearly every level during both peace and operations.

Board Effectiveness There are two committee, namely 1) Human Resource Committee and 2) Audit Committee for effective monitoring and board assistance.

Transparency The internal audit department is outsourced to M/S Yousaf Adil Chartered Accountants for effective monitoring of control systems. The external auditor of the Company is M/S RSM Avais Hyder Liaquat Nauman Chartered Accountants, which falls in the 'A' category of SBP Panel of Auditors.

Management

Organizational Structure The Company has a well-defined and formalized organizational structure, with appropriate departmentalization. It operates through five departments, each with its well-defined and specific functions.

Management Team The senior management team of AWT Investment Limited comprises qualified and experienced professionals. The CEO, Mr. Salman Haider Sheikh has over 24 years of global Investment Management and Investment Banking with 13 years as a successful CEO being instrumental in establishment and growth of Two Large Financial Institutions with a proven track record and independent acknowledgements. His forte also includes Private Equity transactions and Structuring of Investment products. Mr. Basharat Ullah is the chief investment officer. He has extensive experience of 25 years in Pakistani capital markets primarily in the field of investment management and buy/sell side research. He has worked in both asset management and brokerage industry, with 11 years in the mutual fund sector.

Technology Infrastructure The Company is using software designed by Softech Company for the accounting and funds' management solutions. The Company is also in the process of ERP evaluation.

Control Environment The compliance is being led by Mr. Asif, having over 12 years of professional experience in Compliance, operations, audit and assurance. Prior to joining. The Company has devised detailed policies to ensure compliance with all applicable statutory regulations and internal investment guidelines. The company uses excel based models to monitor the exposure limits and margins.

Investment Risk Management

Credit Risk The Company used excel based credit risk models for credit risk monitoring with focus on qualitative and quantitative analysis. The Company has controls in place to ensure exposure limits.

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

Market Risk For managing market risk, various techniques such as VaR analysis, beta analysis and stress testing are being used. The exposure limits are clearly communicated to portfolio managers along with periodic review of appropriateness of limit structure.

Portfolio Management

IC Composition The investment committee comprises of the Chief Executive Officer, Chief Finance Officer, Chief Investment Officer, Head of Risk and Compliance and Fund Manager.

Effectiveness The investment committee comprises of qualified and experienced professionals. The investment committee meets on weekly basis and reviews the investment strategy of each fund under management and its performance on regular basis to incorporate the impact of market circumstances on funds' performance.

Investment Research And Analysis The research function operates under the supervision of Chief Investment Officer. The department uses various techniques including the fundamental analysis of key sectors and stocks to identify attractive investment avenues. For equity valuation, standard financial models are used and broker researches also considered.

Customer Relationship

Investor Services The Company is providing adequate services to its clients. The marketing team is responsible for maintaining relationship with existing and prospective clients. In order to remain competitive, the Company has been implementing strategies for integrating information technology in all the processes of the Company to facilitate its customers. The Company has provided its investors with an online platform which allows real time access to their accounts. The mobile app of the Company provides various value-added services such as fund NAVs, investment account details and E-transactions.

Investor Reporting The Company disseminates unit holder statement on monthly basis which comprises investment value and asset allocations. The Company disseminates and publishes FMR on its website in a timely manner.

Distribution And Sales Network The Company has five branches, of which two are in Karachi, and one each in Lahore, Multan and Rawalpindi.

Performance

Asset Under Management Since Jun'20, the AUMs of the Company declined by ~27%, currently stood at PKR ~1.9bln. The company's SMA portfolio observed a increase in its AUMs in comparison to previous year. The funds performance of the Company remained below industry average but beat the benchmark.

Asset Manager The core income of the Company has increased by ~176% and stood at PKR 58mln (Dec'19: PKR 21mln). During 1HFY21, the Company reported after tax profit of ~PKR 66mln (1HFY20: ~PKR -14.7mln). The Company's equity stood at ~PKR 233mln at end Mar'21, which meets the minimum equity requirement.

Asset Manager Rating

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 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.</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) 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>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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.

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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

Restrictions

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- (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)

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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)

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)

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