



The Pakistan Credit Rating Agency Limited

Rating Report

Cedar Capital (Pvt.) Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
24-Jun-2022	BFR 3	Stable	Maintain	-
25-Jun-2021	BFR 3	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	The ownership has been divided into two family members wherein the majority of shareholding lies with Mr. Umair Amanullah.
Governance	BoD comprises two professional members having experience in the financial services, however, room for improvement exists in board size.
Management and Client Services	CCPL's management team is well experienced. Integration of technology into systems results in high efficiency and customer satisfaction.
Internal Controls and Regulatory Compliance	The Company has established adequate risk management framework and has in house internal audit department to look after the internal controls.
Business Sustainability	Ratings are constrained by the Company's significant dependence on equity brokerage operations, limited diversification of income streams.
Financial Sustainability	The Company has a reasonable capitalization level with the LCB and NCB standing at ~PKR 270mln and ~PKR 274mln respectively, at end-Dec'21.

Key Rating Drivers

The assigned rating of Cedar Capital (Pvt.) Limited (CCPL) is reflective of an adequate ownership structure, conservative governance framework, and sound regulatory compliance and client servicing. The rating accounts for an experienced and qualified management team following a lean organizational structure with clearly defined responsibilities and reporting structure. The clients have been provided with the necessary services including online trading, complaint management, a user-friendly website, and dedicated traders facility. The client services may be improved further with the introduction of a separate research department. The Company has diversified its geographical outreach with the opening of Lahore branch. CCPL has a sound internal control framework supported by an in-house internal audit department and a compliance function augmented by properly defined policies. The rating incorporates a strong business acumen of the sponsor; however, the governance structure has room for improvement in terms of enhancement in board size and the presence of an independent insight. During the 9MFY22, the topline has reflected a significant growth of ~PKR 74mln when compared with the numbers of 9MFY21. However, a significant portion of the revenue is being contributed by a single client resulting in revenue concentration. Diversification in product offering and client base would improve financial sustainability and is an important factor from the rating perspective. An adequate equity base, low leveraged capital structure, and the containment of market risk provide comfort.

Disclosure

Name of Rated Entity	Cedar Capital (Pvt.) Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology Broker Fiduciary Rating(Jan-22)
Related Research	Sector Study Brokerage & Securities(Jan-22)
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Profile

Background: Cedar Capital (Pvt.) Limited ("CCPL" or "The Company") is a Private Limited Company, licensed for equity brokerage. CCPL with its incorporation in 2008, became Corporate Member of the Karachi Stock Exchange.

Operations: The main activities of the Company are limited to equity brokerage.

Ownership

Ownership Structure: CCPL is a family-owned business and the stakes are being divided into two family members where the majority of shareholding lies with Mr. Umair Amanullah (74%). The remaining stake is held by his mother Ms. Mubina (26.4%).

Stability: As far as succession planning is concerned, the Company has identified the next possible successors within the family. Mr. Abdul Sameer may lead the Company in the future if needed. However, a properly documented succession plan would be a positive factor.

Business Acumen: The CEO, Mr. Umair Amanullah is associated with the capital markets of Pakistan for the last 18 years, mainly in the area of Equity Brokerage. Before joining Cedar Capital, Mr. Umair was associated with Crosby Securities Pakistan (Pvt.) Limited as Executive Director for almost three years.

Financial Strength: The CEO has an adequate net worth to support the business in its time of need. The sponsor has shown their willingness to extend financial support in a distressful time.

Governance

Board Structure: The Company's board of directors comprises two experienced individuals including the CEO - Mr. Umair Amanullah. The other director, Mr. Abdul Sameer provides governance oversight. However, there is room for improvement through induction of independent director on board.

Members' Profile: Before joining Cedar Capital, Mr. Umair was associated with Crosby Securities Pakistan (Pvt.) Limited as Executive Director. He was responsible for managing the overall brokerage operations of the Company, through continuous interaction with the PSX, CDC and NCCPL. He was also responsible for oversight of Company's administration and IT infrastructure.

Board Effectiveness: Following the best practices, the Company has formed an audit committee at the board level. The formation of other board-level committees is encouraged

Transparency: The external auditors of the Company are Suriya Nauman Rehan & Co. They have expressed an unqualified opinion on the financial statements for FY21. The firm is QCR rated by ICAP and is in the B Category of SBP's panel of auditors.

Management and Client Services

Organizational Structure: There are eight departments in the company, which directly report to the CEO and COO. The company has created all requisite positions to ensure smooth operations.

Management Team: Mr. Shabeeb Akhtar leads the team as Chief Operating Officer (COO). Mr. Shabeeb possesses diversified work experience of more than 18 years in the Pakistani Capital Market in the areas of operations, finance and policy development. Before joining CCPL, Shabeeb was working as Head of Internal Audit, Compliance & Risk at Crosby Securities Pakistan (Private) Limited. Prior to that he was associated with the Securities and Exchange Commission of Pakistan (SECP) as Deputy Director in the Securities Market Division.

Client Servicing: The Company has an online trading platform that facilitates the market participants to connect from across the globe and trade virtually. Clients are also provided with daily market updates; however, a comprehensive research department may enhance the services available to clients moving forward. Information about the Company, its management, services and financial information can easily be accessed by investors through their website.

Internal Controls and Regulatory Compliance

Complaint Management: The Company has an effective complaint management process in place, with complaints being tracked and traced throughout the process. The aim is to resolve any complaints within 14 days of receipt.

Extent of Automation / Integration: Two database platforms are installed with full integration between back and front office. The system incorporates primary and secondary level protection.

Continuity of Operations: CCPL has operational business continuity & disaster recovery locations, which provide a robust structure for resuming all the critical operations in the shortest possible time. The data pertaining to back-office records and back-office applications are backed up four times a day at a regular interval of 2 hours.

Risk Management Framework: To ensure operational efficiency and appraisal of internal controls, the Company has an in-house internal audit department, which implements and monitors the policies and procedures of the Company and reports to the audit committee. An independent risk management function may further strengthen the control framework.

Regulatory Compliance: The Compliance department along with the internal audit department ensures the timely submission of all regulatory compliance requirements.

Business Sustainability

Operating Environment: Since Oct'21, the market volumes are on a declining trend which has impacted the profitability of the equity brokers. The market however is trading at a historically lowest multiples and a hint of any good news on the macroeconomic front may provide a highly needed breather to the declining market trend. Going forward, the market is lucrative and a good volumetric activity is expected once the clarity emerges on the macroeconomic front.

Performance: The Company's operating revenue comprises only of Commission Income and mark-up earned on saving accounts. During 1HFY22, brokerage commission stood at ~PKR 166mln while the Company earned ~PKR 422mln during FY21 (FY20: ~PKR 48.9mln). The Company earned a net profit of ~PKR 74mln while ~PKR 259mln for FY21 (FY20: PKR 6.1mln).

Strategy: The management is considering to diversify its presence in the north to capture the untapped market. The research department is not yet functional and resources will be hired this year. CCPL has long-term plans to initiate corporate finance and investment advisory department to augment the revenue stream.

Financial Sustainability

Credit Risk: Credit usually arises in the case of trading on behalf of clients where the payment has not been made yet. To minimize the risk of non-payment this facility is only provided to institutions and HNWI's having a long relationship with the Company. Moreover, it is also made sure that enough securities and cash are available in the client's account to serve as collateral. At end-Dec'21, trade receivables stood at ~PKR 23mln, which signifies a low exposure to credit risk.

Market Risk: The Company does not engage in proprietary book trading, limiting their market risk.

Liquidity Risk: At end-Dec'21, current assets of the Company stood at ~PKR 809mln as compared to current liabilities of ~PKR 491mln, indicating an adequate liquidity profile for CCPL.

Capitalization: The Company has a reasonable capitalization level with the Net Capital Balance standing at ~PKR 274mln at end-Dec'21 (Jun'21: PKR 316mln). The Company's equity stood at ~PKR 407mln at end-Dec'21 while their Liquid Capital Balance stood at ~PKR 270mln at end-Dec'21. The Company has a low leveraged capital structure, with short-term borrowings amounting to ~PKR 60mln at end-Dec'21.

Cedar Capital (Pvt.) Limited

Dec-21	Jun-21	Jun-20	Jun-19
6M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	19	31	14	18
3 Other Earning Assets	348	537	62	48
4 Non-Earning Assets	532	261	45	69
5 Non-Performing Finances-net	-	-	-	-
Total Assets	899	829	120	135
6 Funding	100	259	40	62
7 Other Liabilities (Non-Interest Bearing)	392	228	10	6
Total Liabilities	492	487	50	68
Equity	407	342	70	67

B INCOME STATEMENT

1 Fee Based Income	178	422	49	59
2 Operating Expenses	(77)	(73)	(42)	(42)
3 Non Fee Based Income	(3)	16	4	(6)
Total Operating Income/(Loss)	98	365	11	11
4 Financial Charges	(1)	(2)	(0)	(1)
Pre-Tax Profit	98	363	11	10
5 Taxes	(23)	(104)	(5)	(10)
Profit After Tax	74	259	6	0

C RATIO ANALYSIS**1 Business Sustainability**

Pre Tax Margin	54.8%	86.1%	22.9%	17.0%
EBITDA/ Revenue	59.5%	86.5%	23.1%	18.2%
Profit / (Loss) Before Interest & Taxes / Total Assets	10.9%	44.0%	9.4%	7.9%

2 Financial Sustainability

Total Investments / Equity	4.7%	9.0%	19.6%	26.8%
NCB / Equity	67.3%	92.4%	102.6%	74.2%
LCB/ Total Equity	66.4%	75.0%	99.8%	70.2%
(Cash & Cash Equivalents + Government Securities) / Total Assets	88.1%	90.9%	62.0%	58.4%
Total Debt / Equity	24.5%	75.7%	57.3%	59.6%

Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management and client services and sustainability of operations

Scale	Definition
BFR 1	Very Strong. Very Strong quality of management, client services and very high likelihood of sustaining operations.
BFR 2++ BFR 2+ BFR 2	Strong. Strong quality of management, client services and high likelihood of sustaining operations.
BFR 3++ BFR 3+ BFR 3	Good. Good quality of management, client services and above average likelihood of sustaining operations.
BFR 4++ BFR 4+ BFR 4 BFR 5	Adequate. Adequate quality of management, client services and average likelihood of sustaining operations.
	Weak. Weak quality of management, client services and weak likelihood of sustaining operations.

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.

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2) Conflict of Interest

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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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- (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 | Clause 11-(A)(p).
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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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- (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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