



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
25-Jun-2021	BFR 3	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	CCPL is a family owned business and the stakes are being 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 regulatory Net Capital Balance (NCB) standing at PKR 146mIn at end-Dec'20. CCPL may have asset under custody of up to 25x of net worth.

Key Rating Drivers

The assigned rating of Cedar Capital (Pvt.) Limited (CCPL) is reflective of adequate ownership structure, conservative governance framework, good regulatory compliance level and prudent client servicing. CCPL's services mainly comprise equity brokerage where it has competitive institutional clientele. The ratings incorporate the CCPL's low leveraged capital structure supported by sponsor's loan. CCPL has closed its proprietary book to reduce the volatility in profits, hence less exposed to market risk. The ratings would remain dependent on the management's ability to strengthen revenue base by augmenting consultancy and advisory services. Retaining market share and sustaining profitability from core operations remain critical. Meanwhile, upholding strong internal controls and diligent monitoring of risks is important.

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 BFR (Jan-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504

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: The Company sponsor possess relevant educational background and extensive industry specific working knowledge. The overall assessment of strategic thinking capability of sponsor is comfortable. The main sponsor, Mr. Umair Amanullah has a sizeable net worth and has issued a personal guarantee in case of equity erosion in the Company.

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 sponsor has sizeable net worth and may inject capital in the Company with increasing quantum of operations. This also shows the sponsor's commitment in case financial need arises.

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 Heads the Finance function and 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: During the period under review, seven Board meetings were conducted and attended by the Board Members. The Board Members are always provided with a detailed MIS pack before the meetings. The Internal Audit provides formal reports to the Board of Directors on audit, as per the assigned frequency and at other times as requested.

Transparency: The external auditors of the Company are Suriya Nauman Rehan & Co. They have expressed an unqualified opinion on the financial statements for FY20. 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 seven 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 14 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 dedicated resources to provide customer services. For customers facilitation, the Company has provided detailed guidance at their website. Similarly, various channels, including a mobile app and online trading platform, are available to customers to execute and monitor their transactions.

Internal Controls and Regulatory Compliance

Complaint Management: The Company has prepared a Customer Complaint Policy as per the Securities Broker Reg 2016. Customers are assigned a unique complaint number when the complaint is lodged. Complain can also reach company through Call, email, website and by post.

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 set out the rules and procedures to be followed in order to ensure continuity of normal business operations in case of any mishap that could result in disruption of normal business activities. As the primary Disaster Recovery Site, CCPL is using its branch office established in PSX Building where all data backups are being maintained and updated at regular intervals.

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. Audit Committee is also responsible for overseeing the company significant risk areas assessed by Management, Internal or external auditor as well as the related controls to mitigate such risk

Regulatory Compliance: The Compliance Officer ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures.

Business Sustainability

Operating Environment: Pakistan's economy is well on the path of a V-shaped recovery from the Coronavirus-induced contraction due to better containment of the pandemic and well-coordinated and decisive policy measures undertaken by the fiscal and monetary authorities. Accordingly, volumes are expected to improve going forward.

Performance: The Company's operating revenue comprises of Commission Income, gain/loss on revaluation of investments and mark-up earned on exposure margins. During FY20, brokerage commission stood at ~PKR 49mln (FY19: ~PKR 58.6mln). The Company has posted ~PKR 5mln of mark-up earned. The brokerage income in FY20, contributed ~91% to the topline.

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: With the increased focus on Anti Money Laundering (AML) and Counter Terrorist Financing (CTF) in recent times, CCPL has establish enhanced internal controls pertaining to the AML Program. At end-Dec'20, the trade receivables overdue for more than 14 days are only ~0.2% of the overall trade receivables.

Market Risk: CCPL has established a formal Investment Policy document (IPS) for its proprietary book approved by BoD - addressing exposure in different avenues and authorizes signatories. Company's IPS clearly states the exposure limits both sector and scrip wise. However, the management has decided not to maintain the proprietary book any more. This decision was taken in 2019 to smooth the Company's profitability.

Liquidity Risk: The liquidity risk for the Company arises from T+2 settlement framework. The Company reported current assets of ~PKR 588mln for 1HFY21 as compared to current liabilities of ~PKR 431mln. Liquid assets are considered adequate to account for current liabilities of the Company.

Capitalization: The Company has a reasonable capitalization level with regulatory Net Capital Balance (NCB) standing at ~PKR 146mln at end-Dec'20 (Jun'20: ~PKR 72mln). As per regulations, the Company may have Assets Under Custody of up to 25 times of net worth.

**Cedar Capital (Pvt.) Limited
Private Limited**

Dec-20 Jun-20 Jun-19 Jun-18
6M 12M 12M 12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	20	14	18	100
3 Other Earning Assets	76	32	1	0
4 Non-Earning Assets	499	75	116	79
5 Non-Performing Finances-net	-	-	-	-
Total Assets	596	120	135	179
6 Funding	238	48	62	97
7 Other Liabilities (Non-Interest Bearing)	233	2	6	8
Total Liabilities	471	50	68	105
Equity	125	70	67	74

B INCOME STATEMENT

1 Fee Based Income	92	49	59	59
2 Operating Expenses	(25)	(42)	(42)	(55)
3 Non Fee Based Income	4	4	(6)	(101)
Total Operating Income/(Loss)	71	11	11	(97)
4 Financial Charges	(0)	(0)	(1)	(11)
Pre-Tax Profit	71	11	10	(108)
5 Taxes	(21)	(5)	(10)	(30)
Profit After Tax	49	6	0	(138)

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	77.2%	22.9%	17.0%	-183.6%
EBITDA/ Revenue	78.6%	28.3%	23.4%	-158.4%
Profit / (Loss) Before Interest & Taxes / Total Assets	11.9%	9.4%	7.9%	-53.9%

2 Financial Sustainability

Total Investments / Equity	16.4%	19.6%	26.8%	134.7%
NCB / Equity	117.1%	102.6%	74.2%	42.3%
LCB/ Total Equity	115.4%	100.0%	70.2%	28.7%
(Cash & Cash Equivalents + Government Securities) / Total Assets	94.7%	62.0%	58.4%	19.9%
Total Debt / Equity	32.2%	57.3%	59.6%	106.1%

Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management, 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	Adequate. Adequate quality of management, client services and average likelihood of sustaining operations
BFR 5	Weak. Weak quality of management, client services weak likelihood of sustaining operations

<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) 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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- 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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Conduct of Business

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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)

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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