



The Pakistan Credit Rating Agency Limited

## Rating Report

### AL Habib Capital Markets (Pvt.) Limited | BFR

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#### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
19-Jul-2022	BFR 2+	Stable	Maintain	-
19-Jul-2021	BFR 2+	Stable	Initial	-

### Rating Rationale

Factor	Comment
<b>Ownership</b>	The Company is a subsidiary of Bank AL Habib Limited with ~66.67% stake. The remaining stakes are held by Habib Family, friends and associates.
<b>Governance</b>	The Company has six directors on the board including CEO and chairman. There are five non-executive directors and one executive director.
<b>Management and Client Services</b>	The Company has well developed organizational structure to manage its operations and appropriate policies to protect the client's interest.
<b>Internal Controls and Regulatory Compliance</b>	The Company has an in-house internal audit department, which monitors implementation of the policies and procedures of AHCML . Audit Committee further ensures an effective control environment.
<b>Business Sustainability</b>	The topline of the Company is concentrated in the equity brokerage income which clocked in at ~PKR 125mln for CY21 (CY20: ~PKR 94mln).
<b>Financial Sustainability</b>	The investment book is mostly comprised of GoP securities, hence exposed to some market risk. Short-term financing stood at ~PKR 464mln at end-Dec'21.

### Key Rating Drivers

The broker fiduciary rating of AL Habib Capital Markets (Pvt.) Limited ("AHCML" or "The Company") reflects the Company's association with a well-established bank which is one of the dominant players in the banking sector. The assigned rating takes into account the well-experienced management team, and well-established compliance protocols. The Governance framework of the Company is in compliance with Securities Brokers Regulation 2016. The Company has established rigorous protocols regarding risk assessment by implementing KYC, CDD, AML and CFT which bodes well for the rating. Following the recent boom (1HCY21) in traded volumes of Pakistan Stock Exchange, the core revenue of the Company improved by ~33% in CY21 while the market share is also sustained. The Company maintains proprietary investments, mostly in GoP securities, hence exposed to some market risk. The Net Capital Balance of the Company clocked in at ~PKR 257mln with an equity base of ~PKR 373mln at end-Dec'21. The topline of the Company is concentrated in the equity brokerage income. The Company earned profit amounting to ~PKR 41mln during CY21 (CY20: ~PKR 30mln). The ratings are dependent on the management's ability to retain its market share and enhance the volumes and diversity of revenue to improve its competitive position in the brokerage industry. Retention of key personnel, adherence to regulatory requirements, and sustainability of profitability will remain imperative from ratings perspective.

#### Disclosure

<b>Name of Rated Entity</b>	AL Habib Capital Markets (Pvt.) Limited   BFR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Fiduciary Rating (BFR)
<b>Applicable Criteria</b>	Methodology   Broker Fiduciary Rating(Jan-22)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-22)
<b>Rating Analysts</b>	Ayesha Qasim   ayesha.qasim@pacra.com   +92-42-35869504



<b>Profile</b>
Background . Operations .
<b>Ownership</b>
Ownership Structure . Stability . Business Acumen . Financial Strength .
<b>Governance</b>
Board Structure . Members' Profile . Board Effectiveness . Financial .
<b>Management And Client Services</b>
Organizational Structure . Management Team . Client Servicing . Complaint Management . Extent Of Automation / Integration . Continuity Of Operations .
<b>Internal Controls And Regulatory Compliance</b>
Risk Management Framework . Regulatory Compliance .
<b>Business Sustainability</b>
Operating Environment . Performance . Strategy .
<b>Financial Sustainability</b>
Credit Risk . Market Risk . Liquidity Risk . Capitalization .

**AL Habib Capital Markets (Pvt.) Limited**
**Dec-21**
**Dec-20**
**Dec-19**
**12M**
**12M**
**12M**
**A BALANCE SHEET**

1 Finances	452	-	-
2 Investments	192	256	259
3 Other Earning Assets	193	118	6
4 Non-Earning Assets	252	798	211
5 Non-Performing Finances-net	-	-	-
<b>Total Assets</b>	<b>1,089</b>	<b>1,173</b>	<b>476</b>
6 Funding	464	229	17
7 Other Liabilities (Non-Interest Bearing)	252	597	140
<b>Total Liabilities</b>	<b>716</b>	<b>826</b>	<b>157</b>
<b>Equity</b>	<b>373</b>	<b>347</b>	<b>319</b>

**B INCOME STATEMENT**

1 Fee Based Income	138	94	41
2 Operating Expenses	(112)	(87)	(71)
3 Non Fee Based Income	54	34	26
<b>Total Operating Income/(Loss)</b>	<b>81</b>	<b>41</b>	<b>(4)</b>
4 Financial Charges	(24)	(5)	(1)
<b>Pre-Tax Profit</b>	<b>57</b>	<b>36</b>	<b>(5)</b>
5 Taxes	(15)	(6)	(7)
<b>Profit After Tax</b>	<b>41</b>	<b>30</b>	<b>(11)</b>

**C RATIO ANALYSIS**
**1 Business Sustainability**

Pre Tax Margin	41.0%	38.3%	-11.4%
EBITDA/ Revenue	60.2%	38.9%	-18.0%
Profit / (Loss) Before Interest & Taxes / Total Assets	7.4%	3.5%	-0.8%

**2 Financial Sustainability**

Total Investments / Equity	51.4%	73.9%	81.3%
NCB / Equity	68.8%	69.3%	65.7%
LCB/ Total Equity	53.1%	72.4%	68.4%
( Cash & Cash Equivalents + Government Securities ) / Total Assets	44.0%	88.3%	67.6%
Total Debt / Equity	124.4%	66.1%	5.2%

### Broker Fiduciary Rating Scale & Definitions

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

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

**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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### **Rating Team Statements**

(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**

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

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

(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)

### **Independence & Conflict of interest**

(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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