



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-2021	BFR 2+	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	The Company is a subsidiary of Bank AL Habib Limited with 66.67% stake. The remaining stake is held by Habib Family, friends and associates.
Governance	The Company has six directors on the board including CEO and chairman. There are five non-executive directors and one executive director.
Management and Client Services	The Company has well developed organizational structure to manage its operations and appropriate policies to protect the client's interest and to preserve their good faith and trust.
Internal Controls and Regulatory Compliance	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.
Business Sustainability	The topline of the Company is concentrated in the equity brokerage income which clocked in at ~PKR 94mln at end CY20 (CY19: ~PKR 41mln).
Financial Sustainability	Due to low leveraging, capitalization indicators are considered strong. The Company has proprietary investments, mostly in GoP securities, hence exposed to some market risk.

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 in traded volumes of stock exchange, the core revenue of the Company remained buoyant and the Company maintained its market share to average ~2.5%. 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 240mln with an equity base of ~PKR 347mln as at end CY20. The topline of the Company is concentrated in the equity brokerage income. The Company earned profit amounting to ~PKR 30mln during CY20 (CY19: ~PKR -11mln). 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

Name of Rated Entity	AL Habib Capital Markets (Pvt.) Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology Broker Fiduciary Rating(Jan-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504

Profile

Background: AL Habib Capital Markets (Pvt.) Limited, “AHCML or The Company” is a licensed TREC holder of Pakistan Stock Exchange and was incorporated under the Companies Ordinance 1984 in 2005 as private limited company.

Operations: AHCML’s service offering includes Equity Brokerage and Economic and Investment Research. The clientele of the Company is segmented into three categories i) HNWI’s ii) Financial Institutions iii) Retail.

Ownership

Ownership Structure: Bank AL Habib Limited (BAHL) is the major shareholder of AHCML, accounting for two-third of the ownership. The remaining one-third is held by Habib Family, friends and associates.

Stability: Habib Group has been historically involved in the banking sector for about 80 years. With a market share of ~6.3% at end-Dec’20, B AHL operates a network of 850 branches /sub-branches, including 106 Islamic banking branches at end-Dec’20.

Business Acumen: The CEO, Mr. Aftab Q. Munshi possesses diversified experience in capital markets. He is serving on the Board of Directors of AHCML as Chief Executive since its incorporation. Mr. Munshi served with the Jahangir Siddiqui Group for almost 12 years in multiple roles. He headed their Equity Operations for about five years.

Financial Strength: The sponsors have sizeable net worth and may provide support to the Company with increasing quantum of operations. Bank AL Habib Limited enjoys a rating of AAA, assigned by PACRA. The assets of B AHL stood at ~PKR 1,522bln at end-Dec’20.

Governance

Board Structure: The Company has six directors on the board including CEO and Chairman. There are 5 non-executive directors and 1 executive director. Presence of independent insight would be an encouraging factor from the ratings perspective.

Members’ Profile: The board possess the necessary skills and experience required for capital markets. The board members, on-average, possess more than ~20 years of experience in the field of finance and capital markets.

Board Effectiveness: During the period under review, five board meetings were conducted and attended by majority of the board members. The board is always provided with MIS pack prior to the meeting and the meeting discussions are properly documented in the form of minutes.

Transparency: The external auditors of the Company are EY Ford Rhodes, Chartered Accountants. They have expressed an unqualified opinion on the financial statements for CY20. The firm is QCR rated by ICAP and is in the A Category of SBP’s panel of auditors.

Management and Client Services

Organizational Structure: The Company has well developed organizational structure to manage its operations and appropriate policies to protect the clients interest and to preserve their good faith and trust. The Company operates through one branch office and the Head Office located in Karachi. The COO and CFO report to the Company’s CEO. However, the internal audit and compliance departments report to the Audit Committee.

Management Team: The management of AHCML is well qualified and experienced to manage the Company’s operations efficiently. The CFO Mr. Rizwan Hashmi is a Fellow Member of Association of Chartered Certified Accountant. He has been serving as CFO & Company Secretary of AL Habib Capital Markets (Pvt.) Limited since March 2017.

Client Servicing: AHCML regularly publishes reports on market strategy, economy, daily news and market updates. AHCML has provided direct links to relevant institutions and departments on their website. Moreover, various channels, including a mobile app and online trading platforms, are available to execute and monitor the transactions.

Complaint Management: A designated officer has been assigned the responsibility for handling and rectification of complaints. Complaints can also reach the Company through telephone, email, and website. Direct links for PSX and SECP are also available on website to lodge complaints.

Internal Controls and Regulatory Compliance

Extent of Automation / Integration: AHCML has comprehensive and effective IT arrangement to deal with dynamic technological environment prevailing in the capital markets arena. The “Catalyst System” is deployed for online trading transactions with PSX and online monitoring of the margin exposure.

Continuity of Operations: AHCML has established a recovery plan for all essential infrastructure elements, systems, networks, and key business activities. The business continuity plan provides a framework for business departments if a major incident occurs, causing disruption to pre-defined critical services.

Risk Management Framework: 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. For an effective control environment and compliance with reporting standards, AHCML has constituted an Audit Committee and Investment Committee at the board level. Management Committee of AHCML reviews/monitors risk management of the Company amongst other matters.

Regulatory Compliance: Compliance Department ensures regular monitoring of controls and systems, which ensures that all functions are in-line with the applicable policies, procedures and regulations. Research analyst policy has also been formulated.

Business Sustainability

Operating Environment: Unprecedented monetary and fiscal policy response, gradual lifting of the lockdown, and earlier than expected arrival of effective vaccines caused one of the largest reversals in the history of the market, surging by 61% from its lowest level on Mar 25th till Dec 31st. Overall, the stock market managed to finish CY20 with a gain of 7.4%. Volumes in CY20 rebounded from the lows of CY19 where average daily turnover clocked in at 423mln shares compared to 233mln the previous year. Resultantly, average daily traded value almost doubled to USD 101.4mln compared to USD 58.1mln the previous year. Going forward, volumes are expected to remain strong backed by strong appetite of retail investors given the country’s economic rebound and the global Covid-19 vaccine roll out.

Performance: The Company's operating revenue is mainly concentrated in equity brokerage. During CY20 the equity brokerage revenue contributed ~74% to the total revenue. The Company reported net profit of PKR ~30mln in CY20 compared to a loss of ~PKR 11mln in CY19.

Strategy: The management is considering to diversify its revenue streams. The research department is under expansion. The Company also has plan to initiate corporate finance activities.

Financial Sustainability

Credit Risk: For the assessment of client's credit worthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. The exposure limits as a whole and on individual basis are monitored and any shortfalls are immediately reported to senior management for prompt action.

Market Risk: AHCML has maintained a proprietary portfolio. However, major exposure is in Government securities. The Company has formalized an investment policy whereby limits have been defined to mitigate the risks. The compliance department monitors the limits consistently.

Liquidity Risk: The liquidity profile of AHCML is strong. The Company reported current assets of ~PKR 1,136mln in CY20 as compared to current liabilities of ~PKR 825mln.

Capitalization: At end-Dec’20, the Net Capital Balance (NCB) of the Company stood at ~PKR 240mln. The Company has an equity base of ~PKR 347mln at end-Dec’20. AHCML may have assets under custody of up to 25 times of net worth.

Al Habib Capital Markets (Pvt.) Limited

Dec-20

Dec-19

Dec-18

12M

12M

12M

A BALANCE SHEET

1 Finances	-	-	-
2 Investments	257	260	282
3 Other Earning Assets	480	112	4
4 Non-Earning Assets	436	105	168
5 Non-Performing Finances-net	-	-	-
Total Assets	1,173	477	454
6 Funding	817	154	100
7 Other Liabilities (Non-Interest Bearing)	8	3	3
Total Liabilities	825	157	102
Equity	347	319	351

B INCOME STATEMENT

1 Fee Based Income	94	41	28
2 Operating Expenses	(87)	(71)	(60)
3 Non Fee Based Income	34	26	21
Total Operating Income/(Loss)	41	(4)	(11)
4 Financial Charges	(5)	(1)	(0)
Pre-Tax Profit	36	(5)	(11)
5 Taxes	(6)	(7)	(6)
Profit After Tax	30	(11)	(17)

C RATIO ANALYSIS**1 Business Sustainability**

Pre Tax Margin	38.3%	-11.4%	-40.0%
EBITDA/ Revenue	38.9%	-18.0%	-29.3%
Profit / (Loss) Before Interest & Taxes / Total Assets	3.5%	-0.8%	-2.4%

2 Financial Sustainability

Total Investments / Equity	74.0%	81.5%	80.2%
NCB / Equity	68.4%	65.6%	62.3%
LCB/ Total Equity	99.3%	100.1%	60.0%
(Cash & Cash Equivalents + Government Securities) / Total Assets	88.3%	67.7%	62.8%
Total Debt / Equity	66.0%	5.2%	0.0%

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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(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

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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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- (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.
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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)
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- (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)
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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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