



The Pakistan Credit Rating Agency Limited

## Rating Report

### EFG Hermes Pakistan Limited | BFR

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#### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
31-Mar-2022	BFR 2+	Stable	Initial	-

#### Rating Rationale

Factor	Comment
<b>Ownership</b>	Majority shares are owned by EFG Hermes Frontier Holdings LLC with ownership stake of ~51%.
<b>Governance</b>	The board is comprised of seven members. There are 4 non-executive directors and 2 independent directors. While a female director is also present.
<b>Management and Client Services</b>	Management team consist of seasoned professionals reporting to their respective heads at group level. Client servicing is considered strong.
<b>Internal Controls and Regulatory Compliance</b>	Internal audit is performed at the group level. Dedicated risk management and compliance department are also present.
<b>Business Sustainability</b>	Brokerage income improved by ~40% YoY at end-Dec'21. The profitability stood at ~PKR 29mln for CY21 (SPLY: ~PKR 1.6mln).
<b>Financial Sustainability</b>	The liquid capital balance stood at ~PKR 854mln at end-Dec'21. There are no proprietary book investments as per Company policy.

#### Key Rating Drivers

Listed in 2008, EFG Hermes Pakistan Limited ("EFGH" or "The Company") as a foreign broker has local footprint in the country. EFGH primarily provides equity brokerage service to HNWI's, Institutions and Foreign clientele. Room exists for product diversification. Going forward, the Company plans to enhance the retail clientele by introducing a customized mobile-app with user friendly interface. Hiring of additional resources for the technological developments is also under consideration. The Company has performed in line with the market in CY21, whereby the brokerage revenue has improved as compared to previous years. The losses have been turned into profit this year; however, the equity warrants fresh injection. Market risk is reduced due to Company's policy of not investing in proprietary book. The rating takes into account strong management and client servicing supported by an in-house research department, online trading, mobile-app and customer service department. The rating signifies a strong control framework as the policies are aligned at the group level. Separate risk management and compliance further strengthens the control environment. The assigned rating incorporates the Company's strong governance framework emanating from its association with the Egyptian Financial Group having access to emerging and frontier markets. Going forward, sustainability and improvement in core revenue and profitability remains critical. Meanwhile, upholding strong internal controls, retention of key management and diligent monitoring of risk is important.

#### Disclosure

<b>Name of Rated Entity</b>	EFG Hermes Pakistan 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-21)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-22)
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## Profile

**Background:** EFG Hermes Pakistan Limited (EFGH), formerly Invest and Finance Securities Limited (IFSL) started its commercial operations in September 1999. The Company is a TREC Holder of the Pakistan Stock Exchange Limited.

**Operations:** EFGH primarily provides the services of equity brokerage. The brokerage clients are divided into three broad segments: i) Foreign ii) Institutions and iii) Retail/HNWIs.

## Ownership

**Ownership Structure:** EFG Hermes Frontier Holdings LLC is the major shareholder having 51% holding of EFG Hermes Pakistan. ~5% shares are held by directors and rest of ~44% shares are owned by individuals and institutions.

**Stability:** EFG Hermes Frontier Holdings LLC is a 100% owned subsidiary of EFG-Hermes Holding S.A.E. The focus of EFG Hermes Frontier Holding LLC is to increase foot prints and explore new opportunities in frontier markets of the world. EFG Hermes Holdings S.A.E. is an investment bank in the Middle East, North Africa (MENA) and Pakistan region.

**Business Acumen:** EFG, also known as the Egyptian Financial Group, became the first investment banking firm in Egypt when it was established by Dr. Mohamed Taymour in 1984. The company brought many investment strategies that were common to the west to Egypt as several of the firm's founders had Wall Street experience in corporate finance, sales & trading and asset management; for example, Hermes established the first equity index in all of Egypt.

**Financial Strength:** The sponsors have adequate net worth and may inject capital in the Company with increasing quantum of operations. The Holding Company has earned ~\$85mln profit during CY21, while its equity stood at ~\$940mln at end-Dec'21.

## Governance

**Board Structure:** The Company's Board of Directors (BoD) comprises of seven members, which include two independent directors and four non-executive directors. The board is currently chaired by Mr. Murad Ansari, a non-executive director.

**Members' Profile:** The board members on average possess ~20 years of relevant experience. The board members are skilled and experienced to manage the business operations efficiently. The presence of independent directors strengthens the governance framework.

**Board Effectiveness:** To ensure an effective control environment and compliance with reporting standards, the Company has constituted two board committees: i) Audit Committee, and ii) Human Resource and Remuneration Committee. Both the Audit and Human Resource committees are chaired by independent directors.

**Transparency:** Riaz Ahmad Saqib Gohar & Company Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the financial statements for CY21. 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:** EFGH has a matrix organizational structure which clearly highlights the roles and responsibilities of each individual. The functions of the Company are mainly divided into: (i) Finance, (ii) Information Technology, (iii) Equity (Sales), (iv) Admin & HR, (v) Research, (vi) Regional Branch, (vii) Risk Management and Customer Services, (viii) Corporate Affairs and Compliance, (ix) Equity (Settlement), (x) Online Sales and (xi) International Sales. The management directly reports to the heads of departments at group level.

**Management Team:** The CEO, Mr. Saad Iqbal, CFA has over 10 years of relevant experience. The CFO, Mr. Ahmad Zakir Hafeez holds MBA and has been associated with the Company since its inception. Mr. Shahid Kamal heading the secretarial and compliance department is an ACMA and also a Fellow Member of PIPFA.

**Client Servicing:** The Company has provided its customers with various channels, including a mobile app and online trading platform to facilitate them for execution and

## Internal Controls and Regulatory Compliance

monitoring of their transactions. The research department shares the relevant research with the clients on regular basis.

**Complaint Management:** EFGH has provided a guide for lodging complaints on its website and investors can lodge complaints through phone calls, SMS, Email, Website and by physical appearance. The customer service department looks after the complaint's resolution.

**Extent of Automation / Integration:** EFGH's trading system has a centralized real-time risk management system and allows for online trading. The core software functions include Equity Settlement, MM Settlement, Payroll, Accounting and Risk Management. Furthermore, to facilitate its customers, EFGH is establishing a new tailor-made platform which will include an online trading system and a customized mobile app.

**Continuity of Operations:** The Company has a fully operational business continuity & disaster recovery location, which provides a robust structure for resuming all the critical operations in the shortest possible time. The data pertaining to back-office records and back-office application is being backed daily and secured in two separate locations.

## Business Sustainability

**Risk Management Framework:** EFGH has established Risk Management procedures for reviewing risk appetite, policies and controls put in place. EFG's internal audit function which is instrumental in mitigating risk is also based at the group level. EFGH has a separate Risk Manager and the policies are aligned at the group level.

**Regulatory Compliance:** EFGH's compliance department ensures that it is compliant with all the PSX requirements and SECP (Anti Money Laundering and Countering Financing of Terrorism) Regulations that pertain to its particular industry, as well as professional standards, accepted business practices, and internal standards.

## Financial Sustainability

**Operating Environment:** Pakistan's economy staged a recovery in CY21. The rebalancing of MSCI gives an indication to a hopefully better upcoming quarter with expectations of greater international investment; however, the escalating tension and supply chain constraints due to the Russia and Ukraine war have destabilized the capital markets, creating an uncertain future for the market.

**Performance:** During CY21, brokerage revenue improved by ~40% to stand at ~PKR 242mln (CY20: ~PKR 172mln), contributing ~82% to the total revenue. EFGH reported a net profit of ~PKR 29mln in CY21 compared to a profit of ~PKR 2mln in CY20.

**Strategy:** The Company is focusing on enhancing their Retail Clientele by improving their technology integration as well as their social media presence, while the hiring of additional resources for technological advancement is also under consideration.

**Credit Risk:** The majority of the credit exposure are with the customers, brokers and other financial institutions. The Company control its credit risk through a variety of reporting and control procedures, including establishing credit limit based upon a review of the counter parties' financial conditions. The Company monitors collateral levels on a regular basis and requests changes in collateral levels as appropriate if considered necessary.

**Market Risk:** EFGH, as a policy, does not engage in proprietary equity investments, thus limiting the impact of market risk. The Company invests their excess funds in government securities.

**Liquidity Risk:** The current assets of EFGH stood at ~PKR 1,254mln at end-Dec'21 as compared to current liabilities of ~PKR 329mln. The Company retains the ability to borrow funds in the short term and liquidate investments in the financial assets if the need arises.

**Capitalization:** The Company has availed long-term loan of ~PKR 825mln which is secured against the financial guarantee by the parent company. The equity of EFGH improved by ~20% to stand at ~PKR 163mln at end-Dec'21 (CY20: ~PKR 136mln). The LCB stood at a healthy ~PKR 854mln at end-Dec'21.

PKR mln

EFG Hermes Pakistan Limited	Dec-21	Dec-20	Dec-19	Dec-18
	12M	12M	12M	12M
<b>A BALANCE SHEET</b>				
1 Finances	80	41	13	94
2 Investments	841	416	396	315
3 Other Earning Assets	11	11	11	12
4 Non-Earning Assets	385	394	341	556
5 Non-Performing Finances-net	-	-	-	-
<b>Total Assets</b>	<b>1,317</b>	<b>862</b>	<b>762</b>	<b>977</b>
6 Funding	825	440	447	786
7 Other Liabilities (Non-Interest Bearing)	329	286	184	11
<b>Total Liabilities</b>	<b>1,154</b>	<b>726</b>	<b>631</b>	<b>797</b>
<b>Equity</b>	<b>163</b>	<b>136</b>	<b>131</b>	<b>180</b>

**B INCOME STATEMENT**

1 Fee Based Income	242	172	123	134
2 Operating Expenses	(196)	(158)	(167)	(171)
3 Non Fee Based Income	45	43	51	36
<b>Total Operating Income/(Loss)</b>	<b>90</b>	<b>57</b>	<b>8</b>	<b>(2)</b>
4 Financial Charges	(44)	(40)	(45)	(29)
<b>Pre-Tax Profit</b>	<b>47</b>	<b>16</b>	<b>(37)</b>	<b>(31)</b>
5 Taxes	(18)	(15)	(11)	(15)
<b>Profit After Tax</b>	<b>29</b>	<b>2</b>	<b>(48)</b>	<b>(46)</b>

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

Pre Tax Margin	19.3%	9.5%	-30.1%	-23.0%
EBITDA/ Revenue	39.8%	33.0%	6.4%	-1.1%
Profit / (Loss) Before Interest & Taxes / Total Assets	6.9%	6.6%	1.0%	-0.2%

**2 Financial Sustainability**

Total Investments / Equity	515.2%	305.7%	303.2%	175.0%
NCB / Equity	527.9%	276.2%	281.7%	225.6%
LCB/ Total Equity	100.0%	0.0%	0.0%	0.0%
(Cash & Cash Equivalents + Government Securities) / Total Assets	86.1%	81.8%	82.1%	77.0%
Total Debt / Equity	505.7%	323.9%	342.5%	369.5%

### 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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(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

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### **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)
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- (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)
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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)

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(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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