



The Pakistan Credit Rating Agency Limited

Rating Report

Arif Habib Limited | BFR

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
16-Dec-2022	BFR 1	Stable	Maintain	-
17-Dec-2021	BFR 1	Stable	Maintain	-
29-Sep-2021	BFR 1	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	The Company is primarily corporate backed where ~63% stakes lies with Arif Habib Corporation Limited. Whereas, the general public hold ~25% of the shares.
Governance	Being a listed entity, the governance framework is robust, backed by a board of 7 members including 4 non-executive and two independent directors.
Management and Client Services	The management team comprise of seasoned professionals with proper departmentalization and defined roles.
Internal Controls and Regulatory Compliance	AHL has a strong control environment supported by in-house internal audit department reporting directly to the Audit Committee.
Business Sustainability	Revenue from equity brokerage and advisory declined by ~31% YoY in FY22. The performance is commendable in the backdrop of ~45% decline in market volumes.
Financial Sustainability	The credit risk is negligible as evident from the trade receivables comprising of merely ~10% of equity at end-Jun'22. Exposure to market risk has increased due to a significant addition in the proprietary book.

Key Rating Drivers

The assigned rating manifests Arif Habib Limited's ('AHL' or the 'Company') association with astute sponsors Arif Habib Group, one of the prominent conglomerates in the country. Leveraging the expertise of management, AHL has secured numerous awards from renowned bodies including the CFA Society of Pakistan. AHL provides stellar services to its clients in the form of a mobile and web-based trading, access to traders, research reports and in-house customer services. An internal audit by a group internal auditor further strengthens the internal controls. Separate departments are in place to oversee the risk management and compliance function. Contrary to the performance witnessed in FY21, the outgoing FY22 remained a challenging year for local equities. However, AHL managed to contain the decline in traded volumes compared to the market. The short-term investment portfolio also took a hit however, this was partially offset by gains on the real estate investment portfolio. Short-term financing facilities are in place to cater for any shortfall in exposure margins, curtailing the liquidity risk. Going forward, the business environment is expected to remain challenging for the brokerage industry until clarity emerges on the economic front. The rating is dependent on sustainability and improvement in profitability from core income and maintaining market share. Meanwhile, upholding a strong control framework while effectively managing risks, particularly associated with proprietary investment book is critical.

Disclosure

Name of Rated Entity	Arif Habib 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)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504

Profile

Background: Arif Habib Limited (“AHL” or the “Company”) is a licensed TREC holder of Pakistan Stock Exchange and was incorporated in 2004 under the Companies Act, 2017.

Operations: Arif Habib is a premier brokerage and financial services firm engaged in equity trading, investment banking, money market, and securities research. The clientele of the Company is segmented into four categories i) HNWI’s ii) Financial Institutions iii) Retail iv) Foreign Broker Dealers.

Ownership

Ownership Structure: Arif Habib Corporation Limited (AHCL) is the major shareholder of Arif Habib with 63% equity stake while the general public (local & foreign) holds 25% of the shares.

Stability: The Arif Habib Group (AHG) ranks amongst the fastest growing multi-sector group in Pakistan. It has strong ability in identifying and developing successful enterprises.

Business Acumen: Arif Habib Group holds interest in securities brokerage, investment and financial advisory, private equity, investment management, fertilizer, cement, steel, real estate, and energy sectors. Mr. Arif Habib holds vast experience in diverse sectors. Under his leadership, Arif Habib Corporation Limited (AHCL) won several prestigious national and regional awards in recognition of its remarkable financial performance and sound corporate governance practices.

Financial Strength: The un-consolidated profit after tax of the Arif Habib Corporation Limited stood at ~PKR 3,758mln for FY22 while the equity increased from ~PKR 21bln in FY21 to ~PKR 24bln in FY22.

Governance

Board Structure: The Company has seven directors on the Board including CEO and the Chairman. There are four non-executive directors and two independent directors. The presence of independent directors strengthens the Company’s profile from the rating perspective. Additionally, the Board comprises five males and two female directors.

Members’ Profile: Mr. Zafar Alam, the Chairman possess over 31 years of experience in investment banking. Overall, the board possesses the necessary skills and experience required for capital markets.

Board Effectiveness: There are three board committees in place – (i) Audit Committee (ii) Risk & Compliance Committee (iii) HR & Remuneration Committee. The board held four meetings during the period, which were attended by the majority of the members.

Transparency: The external auditors of the Company are Rahman Sarfaraz Rahim Iqbal Rafiq, have expressed an unqualified opinion on the financial statements for FY21. The firm is in the A Category of SBP’s panel of auditors.

Management and Client Services

Organizational Structure: Arif Habib has a multi-tier functional organization structure, consisting of the following departments, i) Finance, ii) Risk management & compliance, iii) IT, iv) Equity operations, v) Research, vi) International sales, vii) Online trading. The heads of the aforementioned departments report directly to the CEO. There is an independent Internal Audit Department reportable to Audit Committee.

Management Team: The Company has a team of seasoned professionals headed by Mr. Shahid Ali Habib, the CEO. Mr. Shahid Ali Habib brings over 24 years of experience in the fields of Securities Brokerage, Banking, Asset Management, and Investment Banking. Mr. Taha Siddiqui (CFO) is an ACCA member and has diversified experience in the fields of Financial, Manufacturing, Trading, and Services industries. The management staff turnover is low, reflecting stability in human resource management.

Client Servicing: The Company offers multiple account opening mediums. Similarly, various channels, including a mobile app, are available to customers to execute and monitor their transactions.

Complaint Management: A robust complaint management system has been established. Complaints can be made via e-mail, SMS, and calls. Direct links for PSX and SECP are also available on the website to lodge complaints. The complaint resolution process is monitored weekly by the Company’s Compliance Department.

Internal Controls and Regulatory Compliance

Extent of Automation / Integration: Two database platforms are installed with full integration between the back and front office.

Continuity of Operations: Arif Habib has a detailed disaster recovery plan to ensure business continuity at the time of disaster. Moreover, backups are maintained on daily basis. Daily backup of critical files of Research Department, Corporate Finance Department and Settlement Department is obtained and stored at File/Date Server.

Risk Management Framework: The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The audit committee is responsible for monitoring the areas that are deemed risky by the management, Internal or external auditors, as well as implementing the mandatory controls required to mitigate such risks. The Company has a coherent and effective risk management framework that allows it to efficiently manage exposure to risk.

Regulatory Compliance: Risk Management & Compliance Department ensure regular monitoring of controls and systems, therefore ascertaining that all functions are in line with the applicable policies and procedures.

Business Sustainability

Operating Environment: Pakistan's economy during CY22 has remained largely volatile. From international aspects such as the global recession and Russia-Ukraine war to the domestic political uncertainty and flash floods devastating a major part of the country, the investors have had no confidence in the market. Traded volumes have remained low which has affected the top line of the brokerage industry as a whole. Moving forward, political stability after elections may play a large factor in the possibility of stabilizing the market; however, the recent increase of policy interest rates may continue to deter investors towards safer fixed-income returns instead of the riskier equity market.

Performance: The Company earned ~PKR 517mln from equity brokerage in FY22 compared with ~PKR 706mln in FY21. The decline in the top line of AHL is related to the decrease in market volumes during FY22 when compared with FY 21. The Company earned ~PKR 827mln profit after tax during FY22 as compared to ~PKR 2,084mln in FY21.

Strategy: The Company aims to build on its market leader status in the advisory domain and diversify its revenue streams. Further, the Company plans to promote retail investment with the help of digital initiatives.

Financial Sustainability

Credit Risk: The Company has developed enhanced due diligence procedures in addition to its KYC for the assessment of client creditworthiness. Applicable policies for leveraged products have been adopted and limits have been defined, which are strictly monitored. Moreover, the Company is equipped with a comprehensive credit risk assessment policy. The policy defines trading limits for different categories of clients and these limits are regularly monitored to avoid any breach.

Market Risk: The Company maintains proprietary and investment books in different asset classes. All investments are properly managed and monitored according to the Company's investment policy. The proprietary investment to net equity ratio of the Company stood at ~101% at end-Jun'22 (FY21: ~55%). A dedicated team (including the CEO) efficiently manages the investments. Additionally, the Company has a firm commitment from its Sponsor to buy back strategic investment from the short-term portfolio at a time of liquidity needs. The investment book has the risk of conflict of interest, though measures have been taken to mitigate it.

Liquidity Risk: AHL has a strong liquidity profile. The current assets of Company were reported at ~PKR 7,119mln as compared to the current liabilities of ~PKR 3,754mln at end-Jun'22. The Company has put in place a rigorous liquidity management policy that defines limits of borrowings in order to prudently manage liquidity needs of the Company.

Capitalization: The Company's Net Capital Balance for FY22 stood at ~PKR 1,645mln. Arif Habib finances its investments through short-term debt and internally generated cash-flows. The Company has a strong equity base of ~PKR 5,202mln at end-Jun'22, increasing from ~PKR 4,995mln at end-Jun'21.

PKR mln

Arif Habib Limited	Sep-22	Jun-22	Jun-21	Jun-20
	3M	12M	12M	12M

A BALANCE SHEET

1 Finances	308	428	246	95
2 Investments	8,127	7,054	4,879	5,529
3 Other Earning Assets	137	190	1,282	83
4 Non-Earning Assets	1,815	1,314	2,065	1,162
5 Non-Performing Finances-net	-	-	-	-
Total Assets	10,387	8,986	8,471	6,869
6 Funding	2,968	1,636	1,373	3,409
7 Other Liabilities (Non-Interest Bearing)	2,146	2,149	2,103	189
Total Liabilities	5,114	3,784	3,476	3,598
Equity	5,272	5,202	4,995	3,271

B INCOME STATEMENT

1 Fee Based Income	261	938	1,397	525
2 Operating Expenses	(118)	(591)	(656)	(356)
3 Non Fee Based Income	88	820	1,784	323
Total Operating Income/(Loss)	232	1,167	2,525	491
4 Financial Charges	(138)	(197)	(132)	(362)
Pre-Tax Profit	94	970	2,393	129
5 Taxes	(23)	(144)	(309)	(69)
Profit After Tax	71	827	2,084	60

C RATIO ANALYSIS**1 Business Sustainability**

Pre Tax Margin	35.8%	103.4%	171.3%	24.6%
EBITDA/ Revenue	93.3%	128.8%	183.2%	99.1%
Profit / (Loss) Before Interest & Taxes / Total Assets	2.2%	13.0%	29.8%	7.2%

2 Financial Sustainability

Total Investments / Equity	154.1%	135.6%	97.7%	169.0%
NCB / Equity	31.2%	0.0%	38.2%	28.6%
LCB/ Total Equity	36.6%	40.9%	41.8%	31.4%
(Cash & Cash Equivalents + Government Securities) / Total Assets	18.0%	14.5%	35.3%	16.3%
Total Debt / Equity	56.3%	31.4%	27.5%	81.3%

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.

<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 surveil 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>
---	---	--	---	---

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.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent