



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Abbasi and Company (Pvt.) Limited | BMR**

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**Rating History**

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Jun-2022	BMR2	-	Stable	Maintain	-
22-Sep-2021	BMR2	-	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

Abbasi and Company (Pvt.) Limited ("ACPL" or "The Company") mainly provides the services of equity brokerage and research. The assigned rating reflects a strong internal control framework, satisfactory risk management, and compliance with regulatory affairs. The Company has established rigorous protocols regarding risk assessment by implementing KYC/AML, CFT, and other clearly defined policies. ACPL's Internal audit department is outsourced to an audit firm which further strengthens the control environment. The Company has devised a comprehensive Disaster Recovery and business continuity plan to tackle any uncertain events. The Company has an efficient transaction execution and monitoring process in place. The rating takes note of ACPL's well-developed organizational structure with a qualified and experienced management team. The clients have been provided with the facilities of online trading/dedicated trader, regular transaction updates, and access to research reports. A dedicated customer support department is also present to resolve the client's grievances. The rating incorporates the strong business acumen of Mr. Muhammad Ismail Abbasi who is associated with the financial industry for more than ~35 years. However, the governance framework may be enhanced further by increasing the board size and the inclusion of independent insight. The average market share of ACPL hovers in the range of ~0.5% to ~1%. The primary source of revenue stems from equity brokerage which lacks diversity, resulting in rating constraints. The Company has earned brokerage revenue of ~PKR 39mln for 9MFY22 (SPLY: ~PKR 60mln). The decline came on the back of lower market volumes in the last six months of the reporting period. Unrealized losses of ~PKR 16mln on prop-book further dragged down the profitability and resulted in a loss of ~PKR 31mln for 9MFY22. The Company has reasonable equity of ~PKR 423mln at end-Mar'22 which is a comforting factor. A low leverage capital structure provides support to the rating.

Going forward, sustainability of market share, revenue, and profitability will remain imperative, while upholding strong internal controls and risk management framework and retention of key management is critical. Further, rational diversification of business activity may provide support to the company's overall financial risk profile.

**Disclosure**

<b>Name of Rated Entity</b>	Abbasi and Company (Pvt.) Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	Methodology   Broker Management Rating(Jul-21)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-22)
<b>Rating Analysts</b>	Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504



## Ownership

**Ownership Structure** The majority of shares are owned by Mr. Syed Muhammad Ismail Abbasi who owns 69.7% of the ownership. The second highest ownership belongs to Ms. Yasmeen Ismail who owns ~12.9% of the total shares.

**Stability** The Company's sponsors have a long-standing reputé in the market while their sizeable net worth is a positive factor for the ratings. A written succession plan also adds stability to the Company.

**Business Acumen** The CEO, Mr. Syed Muhammad Ismail Abbasi possess diversified experience in capital markets. He is serving on the Board of Directors of ACPL as a Chief Executive since its incorporation. He is also serving as chairperson of the Board. He holds a Master's Degree with distinction in Commerce from The University of Punjab and with over 35 years of experience in Pakistan's financial markets.

**Financial Strength** The sponsors have sizeable net worth and may inject capital in the Company with increasing quantum of operations. This also shows the sponsors commitment in case financial need arises.

## Governance

**Board Structure** The board of directors is comprised of three members all of whom represent the family. The board structure may be further enhanced in terms of size and independent insight.

**Members' Profile** The board possesses 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** To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee, HR Committee and Executive Risk Management Committee. The Audit Committee conducts meetings at minimum of once every quarter and the internal auditor reports are presented along with the findings.

**Financial Transparency** The external auditors of the Company are M/s Parker Russell – A.J.S and Company Chartered Accountants. The auditors of the Company are classified in the category 'B' of State Bank of Pakistan panel of Auditors and have expressed an unqualified opinion on the financial statements for FY21.

## Management

**Management Team** The management of ACPL is well qualified and experienced to manage the Company's operations efficiently. The CFO Mr. Qamar Tariq is an IFMP member and a Certified Anti Money Laundering Professional. He is overseeing the financial operations for more than 10 years.

**Organizational Structure** The Company has well developed organizational structure. The Company operates through ten departments namely i) Operations ii) Equity iii) Transaction iv) Accounts & Finance v) Research vi) IT vii) Business Support and Service viii) Human Resource ix) Compliance and x) Business Development. All of the departmental heads, directly or indirectly, report to the CEO. However, the Internal Auditor reports to the Board Audit Committee.

**Client Servicing** The Company has provided its customers with access to an online trading terminal, dedicated traders, and industry research reports. A dedicated customer service department is present to facilitate clients in account opening process and other queries.

**Complaint Management** A complaint box has been placed on the office premise while complaints can also reach the Company through calls, email, website, and post. A designated officer has been assigned the responsibility of handling and rectification of complaints.

**Extent Of Automation / Integration** The Company has procured the front-end and back office system from SECP approved vendor. The trading terminal is integrated with the back-office system and able to generate real-time MIS for management use.

**Continuity Of Operations** ACPL has established a recovery plan for all essential infrastructure elements, systems, networks, and key business activities. The Company has assessed the possibility of potential disaster or emergency and has defined a range of parameters to cater to these risks.

**Risk Management Framework** The Risk Management Committee oversees the risk management function, with an outsourced internal auditor strengthening the control framework. Well-defined policies pertaining to credit and liquidity risk management and proprietary trading have been implemented.

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

## Business Sustainability

**Business Risk** The operating environment of the brokerage industry is directly correlated to the political and economic environment both of which have become highly uncertain in the last couple of months. Since Oct'21, the market volumes are on a declining trend which has impacted the profitability of the equity brokers. The market however is trading at a historically lowest multiples and a hint of any good news on the macroeconomic front may provide a highly needed breather to the declining market trend. Going forward, the market is lucrative and a good volumetric activity is expected once the clarity emerges on the macroeconomic front.

**Business Profile** The Company mainly provides the services of equity and commodity brokerage and research to high-net-worth clientele.

**Revenue And Profitability Analysis** The Company's operating revenue is mainly concentrated in equity brokerage. During 9MFY22, the brokerage revenue declined to ~PKR 39mln (SPLY: ~PKR 60mln) on the back of lackluster market activity. The Company reported a net loss of PKR ~31mln for 9MFY22 as compared to a profit of ~PKR 15mln during 9MFY21.

## Financial Sustainability

**Credit Risk** The Company has put in place different risk mitigation measures to determine the scope of the identification and verification requirements and ongoing monitoring based on the risks posed by particular customers by setting transaction limits for higher-risk Customers.

**Market Risk** ACPL has maintained a proprietary portfolio but the quantum of short-term investment is very minimal. The Company has formalized a proprietary trading policy whereby limits have been defined to mitigate the risks, the compliance department monitors the limits constantly and any breaches are reported to the senior management. The Company's prop-book stood at ~PKR 55mln at end-Mar'22, comprising of ~13% of equity.

**Liquidity Profile** The Company reported current assets of ~PKR 366mln at end-Mar'22 as compared to current liabilities of ~PKR 188mln representing an adequate liquidity profile. The Company has also developed a detailed liquidity risk management policy.

**Financial Risk** At end-Mar'22, the Net Capital Balance (NCB) of the Company stood at ~PKR 147mln. The Company has an equity base of ~PKR 423mln at end-Mar'22.



PKR mln

**Abbasi & Company (Pvt.) Limited**  
**Private Limited**

Mar-22	Jun-21	Jun-20	Jun-19
9M	12M	12M	12M

**A BALANCE SHEET**

1 Finances	-	-	-	-
2 Investments	75	75	53	43
3 Other Earning Assets	37	59	-	54
4 Non-Earning Assets	500	516	640	506
5 Non-Performing Finances-net	-	-	-	-
<b>Total Assets</b>	<b>611</b>	<b>651</b>	<b>693</b>	<b>603</b>
6 Funding	-	-	-	-
7 Other Liabilities (Non-Interest Bearing)	188	196	269	188
<b>Total Liabilities</b>	<b>188</b>	<b>196</b>	<b>269</b>	<b>188</b>
<b>Equity</b>	<b>423</b>	<b>455</b>	<b>423</b>	<b>414</b>

**B INCOME STATEMENT**

1 Fee Based Income	39	81	52	45
2 Operating Expenses	(63)	(80)	(67)	(65)
3 Non Fee Based Income	(7)	32	8	(7)
<b>Total Operating Income/(Loss)</b>	<b>(30)</b>	<b>34</b>	<b>(7)</b>	<b>(28)</b>
4 Financial Charges	(0)	(0)	(0)	(0)
<b>Pre-Tax Profit</b>	<b>(30)</b>	<b>34</b>	<b>(8)</b>	<b>(28)</b>
5 Taxes	(1)	(2)	(1)	3
<b>Profit After Tax</b>	<b>(31)</b>	<b>31</b>	<b>(9)</b>	<b>(25)</b>

**C RATIO ANALYSIS**

**1 Cost Structure**

Financial Charges / Total Operating Income/(Loss)	-0.2%	0.1%	-0.7%	-0.1%
Return on Equity (ROE)	-7.9%	9.3%	-2.5%	-5.1%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	69.3%	69.9%	61.1%	68.7%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	-208.92	402.94	28.42	-566.90

**3 Liquidity**

Liquid Assets / Total Assets (D+E+F)	11.9%	3.4%	10.9%	26.1%
Liquid Assets / Trade Related Liabilities	39.4%	11.3%	28.4%	86.8%

**4 Credit & Market Risk**

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	3.0%	1.5%	0.9%	1.7%
Equity Instruments / Investments	26.4%	26.3%	36.7%	3.2%

**Broker Management Rating**

An independent opinion on the quality of management and services provided by a broker

Scale	Definition
<b>BMR 1A</b>	<b>Excellent.</b> Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++</b> <b>BMR 1+</b> <b>BMR 1</b>	<b>Strong.</b> Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++</b> <b>BMR 2+</b> <b>BMR 2</b>	<b>Sound.</b> Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++</b> <b>BMR 3+</b> <b>BMR 3</b>	<b>Adequate.</b> Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++</b> <b>BMR 4+</b> <b>BMR 4</b>	<b>Inadequate.</b> Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak.</b> Weak regulatory compliance and business practices.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
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**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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