



The Pakistan Credit Rating Agency Limited

Rating Report

Abbasi and Company (Pvt.) Limited | BMR

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Rating History table with columns: Dissemination Date, Long Term Rating, Short Term Rating, Outlook, Action, Rating Watch. Rows show dates from 2021 to 2024 with ratings BMR2 and outlooks Stable/Initial.

Rating Rationale and Key Rating Drivers

Abbasi and Company (Pvt.) Limited ("ACPL" or the "Company") has a sustained position in the brokerage space, particularly in the Central and Northern regions of the country. The Brokerage industry is experiencing a boom in revenue since October 2023 due to renewed investor interest and attractive scrip valuations increasing volumes traded and pushing KSE-100 Index to historic highs. FY25 is expected to continue on with this trend; however, political stability and macro-economic conditions may play a key role in investor confidence. The assigned rating takes into account the strong business acumen of the sponsoring family. Ownership structure is considered stable with succession planning present within the family. Currently, ACPL has three executive directors on the Board, all being family members. The governance framework may be improved with an increase in the board size and addition of independent oversight. The rating incorporates a well-designed organizational structure with proper departmentalization and clearly defined responsibilities. The experienced management team efficiently manages business operations. Recently, ACPL has revamped its website and mobile application, by the name of 'Trade in', with a user-friendly interface to provide clients with the facility of online trading while a research department is also present. A dedicated customer support department resolves client grievances. The rating reflects a strong internal control environment supported by well-defined policies and an outsourced internal audit function. The presence of separate departments for risk management and compliance is a strengthening factor. Brokerage revenue has increased by ~92% during 9MFY24, with the Company earning ~PKR 50mln during the period (SPLY: ~PKR 26mln). There is limited diversification in the topline through MTS and commodity brokerage. Administrative and operating expenses are high, squeezing the net margins of the Company. During 9MFY24, ACPL earned ~PKR 0.4mln as net profit (SPLY: Loss of ~PKR 30mln). The Company has a zero-leveraged capital structure with the equity base standing at ~PKR 353mln at end-Mar'24.
Moving forward, diversification in revenue streams, customer base, and geographic reach is vital. Moreover, upholding of internal controls and growth in profitability remain important.

Disclosure

Disclosure table with rows: Name of Rated Entity (Abbasi and Company (Pvt.) Limited | BMR), Type of Relationship (Solicited), Purpose of the Rating (Broker Management Rating), Applicable Criteria (Assessment Framework | Broker Management Rating(Nov-23)), Related Research (Sector Study | Brokerage & Securities(Jan-24)), Rating Analysts (Hassaan Ahmad | Hassaan.Ahmad@pacra.com | +92-42-35869504)



Ownership

Ownership Structure ACPL is primarily owned by individuals and it is not part of any foreign or local group. 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 reputation in the market while their sizeable net worth is a positive factor for the ratings

Business Acumen The CEO, Mr. Syed Muhammad Ismail Abbasi possesses 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 of a financial need arises.

Governance

Board Structure ACPL has appointed three directors on board according all of whom are executive. The presence of Independent and Non-Executive directors would be an encouraging factor.

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 Randall – A.J.S and Company Chartered Accountants which are classified under the 'B' category of the State Bank of Pakistan panel of Auditors.

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 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 report to the CEO. However, Head of Internal Audit reports to the Board Audit Committee.

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 monitoring of their transactions. Furthermore, to further facilitate the customers a dedicated research department, trading facility, and a separate customer service department is also present.

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

Extent Of Automation / Integration Two database platforms are installed with full integration between back and front office. The system incorporates primary and secondary level protection. ACPL is in usual practice of daily and weekly backups.

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 these risks.

Risk Management Framework ACPL has placed a separate resource specifically for risk management. Moreover, to ensure independent insight an independent Internal Auditor has been made part of the Risk Management Committee, thereby removing any conflict of interest and ensuring independence

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

Business Sustainability

Business Risk Since Oct'23, the KSE-100 Index has experienced a surge in investor interest, with the index breaching historic high levels continuously and breaching the 75k mark for the first-time during May'24. The market P/E ratio is still considerably low and the index is expected to grow further. Of particular note is the decision of the country's policy rate, and the expected rate cut at the start of FY25 shall give rise to fresh buying as investors shift the focus from fixed-income to the equity market. While FY24 shall have good results for the brokerage industry, political and economic stability are key factors to uphold investor interest during FY25.

Business Profile The Company mainly provides the services of equity brokerage while also strengthening its presence in the commodity brokerage segment. The management is further considering to enhance its outreach in the retail segment for which it has recently revamped its mobile trading app with a user-friendly interface. ACPL also has a long-term plan to initiate a corporate finance and investment advisory department

Revenue And Profitability Analysis The Company's operating revenue is mainly concentrated on equity brokerage. During, the 9MFY24 company reported operating revenue of ~PKR 50mln, inclined by 104% when compared with 9MFY23 at 22mln. Additionally, company reported operating revenue of 33mln in 1HFY23 as compare to 17mln SPLY. The top line was impacted on account of uplift of market activity. The Company reported a net profit of ~PKR 0.4mln as compared to a loss of ~PKR 29mln in 9MFY23. The stats for 1HFY23 for net profit were 6mln as compare to net loss of 21mln. The profit incurred due to the incline in the operating revenue which is in line with the market trend.

Financial Sustainability

Credit Risk For the assessment of the client's credit worthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. The Company has also 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 minimal; ~10% of the equity at end-Mar'24 and ~7.5% at end Dec'23. The Company has formalized a proprietary trading policy whereby limits have been defined to mitigate the risks, the compliance department will monitor the limits consistently and any breaches will be reported to the senior management.

Liquidity Profile At end-Mar'24 the current assets of the Company stood at ~PKR 320mln against the current liabilities of ~PKR 190mln. However, at end Dec'23, Current assets were 297mln as compare to 212mln at end Jun'23. The Company has an adequate liquidity profile.

Financial Risk The Company has an adequate capitalization level with Liquid Capital Balance (LCB) standing at ~PKR 69mln at end-Mar'24. The Company's equity stood at ~PKR 353mln at end Mar'24 as compare to 356mln at end Jun'23. The equity has declined by ~0.8% which could be attributable to the decline in fair value reserves during the period.



Abbasi & Company (Pvt.) Limited
Private Limited

PKR mln

Mar-24	Jun-23	Jun-22	Jun-21
9M	12M	12M	12M

A BALANCE SHEET

1 Finances	0.00	0	-	-
2 Investments	41	49	71	75
3 Other Earning Assets	69	57	63	59
4 Non-Earning Assets	434	340	408	516
5 Non-Performing Finances-net	0	0	-	-
Total Assets	544	447	541	651
6 Funding	0	0	-	-
7 Other Liabilities (Non-Interest Bearing)	190	90	133	196
Total Liabilities	190	90	133	196
Equity	353	356	408	455

B INCOME STATEMENT

1 Fee Based Income	50	34	48	81
2 Operating Expenses	(66)	(78)	(83)	(80)
3 Non Fee Based Income	16	4	(11)	32
Total Operating Income/(Loss)	1	(40)	(46)	33
4 Financial Charges	(0)	(0)	(0)	(0)
Pre-Tax Profit	1	(40)	(46)	33
5 Taxes	(0)	(1)	(1)	(2)
Profit After Tax	0	(41)	(47)	31

C RATIO ANALYSIS

1 Cost Structure				
Financial Charges / Total Operating Income/(Loss)	14.8%	-0.1%	-0.2%	0.1%
Return on Equity (ROE)	0.2%	-11.5%	-8.1%	9.5%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	65.0%	79.8%	75.4%	69.9%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	3261.7%	-43544.2%	-27230.9%	39411.4%
3 Liquidity				
Liquid Assets / Total Assets (D+E+F)	43.6%	25.6%	31.0%	42.8%
Liquid Assets / Trade Related Liabilities	125.6%	127.9%	127.3%	144.0%
4 Credit & Market Risk				
Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	4.4%	4.9%	2.7%	1.5%
Equity Instruments / Investments	88.4%	25.5%	33.7%	26.3%

Broker Management Rating

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

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

<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>
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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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(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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- (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)
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- (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).
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- (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)
- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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