



The Pakistan Credit Rating Agency Limited

Rating Report

Cedar Capital (Pvt.) Limited | BMR

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Jul-2021	BMR3	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating of Cedar Capital (Pvt.) Limited ("CCPL" or the "Company") incorporates adequate ownership structure, satisfactory regulatory framework, sound internal controls and strong business acumen of sponsor. CCPL has a well-defined organizational hierarchy where the responsibilities and reporting lines are logically structured. The assigned rating takes into account a sound IT infrastructure supported by clearly defined IT, disaster recovery and back-up policy. CCPL provides prudent services to its clients in the form of complaint management, access to technical and fundamental reports and a dynamic reporting mechanism. CCPL primarily provides the services of equity brokerage, wherein CCPL has competitive institutional clientele; however, limitation in revenue diversification exists. Further, governance framework is adequate as room for improvement exists on independent insight. The ratings also incorporate CCPL's low leveraged capital structure supported by sponsor's loan. CCPL has closed its proprietary book to reduce the volatility in profits, hence less exposed to market risk. The Company has a reasonable capitalization level with regulatory Net Capital Balance (NCB) standing at PKR 248mln at end-Mar'21. CCPL may have asset under custody of up to 25x of net worth.

The ratings would remain dependent on the management's ability to strengthen revenue base by augmenting consultancy and advisory services. Retaining market share and sustaining profitability from core operations remain critical. Meanwhile, upholding strong internal controls and diligent monitoring of risks is important.



Ownership

Ownership Structure CCPL is a family-owned business and the stakes are being divided into two family members where the majority of shareholding lies with Mr. Umair Amanullah (74%). The remaining stake is held by the CEO's mother Ms. Mubina (26%).

Stability The Company was formed in 2008 after the acquisition of Membership Card from M/S Siraj ud din Qasim and commenced the brokerage operations in 2011. The Company is a Corporate Member of the Pakistan Stock Exchange and registered with the Securities & Exchange Commission of Pakistan (SECP) under Securities Brokers (Licensing and Operations) Regulations 2016.

Business Acumen The Company sponsors possess relevant educational background and extensive industry specific working knowledge. The overall assessment of strategic thinking capability of sponsors is comfortable.

Financial Strength The main sponsor, Mr. Umair Amanullah has a sizeable net worth and have provided financial support in the past, which bodes well for the Company.

Governance

Board Structure The Company's board of directors comprises two experienced individuals including the CEO - Mr. Umair Amanullah. The other director, Mr. Abdul Sameer also heads the finance function. However, there is room for improvement through induction of independent director on board.

Members' Profile The CEO, Mr. Umair Amanullah is also holding the chairman position and associated with the capital markets of Pakistan for the last 18 years, mainly in the area of private wealth management. Before joining Cedar Capital, Mr. Umair was associated with Crosby Securities Pakistan (Pvt.) Limited as Executive Director for almost three years.

Board Effectiveness The Company has established an audit committee at the board level. Audit Committee is responsible for overseeing the Company significant risk areas assessed by management, Internal or external auditor as well as the related controls to mitigate such risk.

Financial Transparency M/S Suriya Nauman Rehan & Company Chartered Accountants are the external auditors of the Company. They have expressed an unqualified opinion on the financial statements for FY20. The firm is QCR rated by ICAP and is in the B Category of SBP's panel of auditors.

Management

Management Team Mr. Shabeeb Akhtar leads the team as Chief Operating Officer (COO). Mr. Shabeeb possesses diversified work experience of more than 14 years in the Pakistani Capital Market in the areas of operations, finance and policy development. Before joining CCPL, Shabeeb was working as Head of Internal Audit, Compliance & Risk at Crosby Securities Pakistan (Private) Limited. Prior to that he was associated with the Securities and Exchange Commission of Pakistan (SECP) as Deputy Director in the Securities Market Division.

Organizational Structure There are seven departments in the Company, which directly report to the CEO and COO. All of the departments are headed by experienced individuals.

Client Servicing The Company maintains comprehensive account opening practices in line with regulatory requirements. The Company provides live and real time updates of market news and announcements to its clients for prudent decision making. The Company offers online trading platform to its clients.

Complaint Management The Company has defined policy for lodging complaints. Complaints can be made via email, phone calls or by filling online complaint form.

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. The software is fully integrated with data base. It can generate real time reports on timely basis.

Continuity Of Operations CCPL has set out the rules and procedures to be followed in order to ensure continuity of normal business operations in case of any mishap that could result in disruption of normal business activities. As the primary Disaster Recovery Site, CCPL is using its branch office established in PSX Building where all data backups are being maintained and updated at regular intervals.

Risk Management Framework To ensure operational efficiency and appraisal of internal controls, the Company has an in-house internal audit department, which implements and monitors the policies and procedures of the Company. Audit Committee is also responsible for overseeing the company significant risk areas assessed by Management, Internal or external auditor as well as the related controls to mitigate such risk.

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

Business Sustainability

Business Risk 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.

Business Profile The main activities of the Company are limited to equity brokerage.

Revenue And Profitability Analysis The Company's operating revenue comprises of Commission Income, gain/loss on revaluation of investments and mark-up earned on exposure margins. During FY20, brokerage commission stood at ~PKR 49mln (FY19: ~PKR 58.6mln). The Company has posted ~PKR 5mln of mark-up earned. The brokerage income in FY20, contributed ~91% to the topline.

Financial Sustainability

Credit Risk With the increased focus on Anti Money Laundering (AML) and Counter Terrorist Financing (CTF) in recent times, CCPL has establish enhanced internal controls pertaining to the AML Program. At end-Dec'20, the trade receivables overdue for more than 14 days are only ~0.2% of the overall trade receivables.

Market Risk CCPL has established a formal Investment Policy document (IPS) for its proprietary book approved by BoD - addressing exposure in different avenues and authorizes signatories. Company's IPS clearly states the exposure limits both sector and scrip wise. However, the management has decided not to maintain the proprietary book any more. This decision was taken in 2019 to smooth the Company's profitability.

Liquidity Profile The liquidity risk for the Company arises from T+2 settlement framework. The Company reported current assets of ~PKR 588mln for 1HFY21 as compared to current liabilities of ~PKR 431mln. Liquid assets are considered adequate to account for current liabilities of the Company.

Financial Risk The Company has a reasonable capitalization level with regulatory Net Capital Balance (NCB) standing at ~PKR 146mln at end-Dec'20 (Jun'20: ~PKR 72mln). As per regulations, the Company may have Assets Under Custody of up to 25 times of net worth.



PKR mln

Cedar Capital (Pvt.) Limited
Private Limited

Dec-20	Jun-20	Jun-19	Jun-18
6M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	20	14	18	100
3 Other Earning Assets	76	32	1	0
4 Non-Earning Assets	499	75	116	79
5 Non-Performing Finances-net	-	-	-	-
Total Assets	596	120	135	179
6 Funding	238	48	62	97
7 Other Liabilities (Non-Interest Bearing)	233	2	6	8
Total Liabilities	471	50	68	105
Equity	125	70	67	74

B INCOME STATEMENT

1 Fee Based Income	92	49	59	59
2 Operating Expenses	(25)	(42)	(42)	(55)
3 Non Fee Based Income	4	4	(6)	(101)
Total Operating Income/(Loss)	71	11	11	(97)
4 Financial Charges	(0)	(0)	(1)	(11)
Pre-Tax Profit	71	11	10	(108)
5 Taxes	(21)	(5)	(10)	(30)
Profit After Tax	49	6	0	(138)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)

Return on Equity (ROE)

0.1%	0.9%	6.5%	-11.5%
138.4%	9.0%	0.0%	132.9%

2 Capital Adequacy

Equity / Total Assets (D+E+F)

Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)

20.9%	58.1%	49.7%	41.4%
123	39.64	-13.71	67.80

3 Liquidity

Liquid Assets / Total Assets (D+E+F)

Liquid Assets / Trade Related Liabilities

44.5%	7.9%	20.1%	13.7%
134.2%	116.4%	124.0%	134.9%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers

Equity Instruments / Investments

32.9%	11.4%	22.0%	10.4%
0.0%	0.0%	0.0%	0.0%

Broker Management Rating

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

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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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

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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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- (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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- (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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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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