



The Pakistan Credit Rating Agency Limited

Rating Report

Amanah Investments Limited | BMR

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Nov-2021	BMR3	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating reflects upon multiple facets of Amanah Investment Limited (“AIL” or the “Company”). The Company expanded brokerage operations for the public and initiated client on-boarding in the year 2020 with an intention of being a fully Shariah Compliant broker, accordingly the assessment is based on initial performance and going forward plans. Prior, AIL was only focused on running its Propriety Book since 2015. The assigned rating incorporates adequate ownership structure, sound internal controls, adequate client servicing, and strong business acumen of the sponsor. The Company has an adequate governance framework which may be enhanced through the inclusion of independent board members. Increasing the board size may also support the formation of independently represented board-level committees. The Company has an adequate internal control framework which is subsequently supported by established policies; however, the inclusion of an independent internal audit department would be a strengthening factor. The assigned rating takes into account a sound IT infrastructure supported by defined IT, disaster recovery, and backup policies. AIL provides prudent services to its clients in the form of complaint management, order recording, and reporting mechanism. The organizational structure of the Company is commensurate with the start-up stage. AIL emphasizes trading only in a Shariah-Compliant manner and operating on the Islamic principles of trading. Whilst the initiative is commendable and the Company will have the privilege of capturing a niche market, the Company will not be able to deal in MTS, MFS, and other leverage-based products. The Company plans to improve its outreach by launching an online platform integrated with RDA. There are further plans for the expansion of the research department which would aid in enhancing client relationships and would help in the on-boarding of corporate clientele. Successful execution of the aforementioned will be important for the rating, going forward. AIL has initiated its operations with equity brokerage services and earned brokerage revenue of ~PKR 5.7mln in FY21 (SPLY: ~PKR 1mln). At end-Jun’21 the equity of AIL stood at ~PKR 221mln (SPLY: ~PKR 145mln). The increase in equity is attributable to a sizeable revaluation gain of ~PKR 70mln booked in FY21. AIL has a leverage-free capital structure and the Company intends to remain debt-free as per corporate policy.

The ratings would remain dependent on the management’s ability to strengthen the 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.

Disclosure

Name of Rated Entity	Amanah Investments Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Methodology Broker Management Rating(Jul-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Muhammad Rafey Malik rafey.malik@pacra.com +92-42-35869504



Ownership

Ownership Structure Amanah Investments Limited is predominately owned and run by a family with Mr. Abdul Wahab Omar acting as the Chief Executive Officer and is also the primary sponsor.

Stability The Company was formed in 2005 and commenced operations in 2015 with proprietary trading. The Company further expanded client on-boarding in 2020. 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's sponsor 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. Abdul Wahab has adequate net worth and may provide financial support in time of need.

Governance

Board Structure The Company's board of directors comprises of three individuals including the CEO – Mr. Abdul Wahab. All of the directors are executive and there is room for improvement through induction of independent director on board.

Members' Profile Mr. Abdul Wahab Omar has over 20 years of experience in the Financial Markets sector. Being an MSc in Investments Management, he specializes in mergers and acquisitions. Mr. Muhammad Omar who acts as the chairman has been with the Company since its inception.

Board Effectiveness The experience of the board helps in providing useful insight into the business management and guiding the management in effectively developing optimizing the organizational procedures and policy. The board meeting is held quarterly. Board minutes are very concise and capture details of the discussion. The Company has formed HR committee and Internal Audit Committee at the board level.

Financial Transparency Reanda Haroon Zakaria and has been engaged as Amanah's Investment's external auditors during FY21. The auditor is ranked as Category B auditor on the panel of SBP auditors list.

Management

Management Team Mr. Muhammad Irfan, Mr. Ali Sufyan, and Mr. Aryn Abdul Wahid act as part of the senior management for Amanah Investments Limited. All 3 members of the senior management boast creditworthy educational credentials. Mr. Muhammad Irfan is a Masters's in Economics and has been with the company since 2011 and serves as the Company Secretary. Mr. Ali Sufyan is an ACCA and serves as the Head of Investments. Mr. Aryn Abdul Wahid acts as the Chief Strategy Officer.

Organizational Structure The Company has an adequate organizational structure with an experienced management team and a balanced mix of professionals from the finance industry. The functions of the Company are mainly divided into 1) Operations, 2) Finance, 3) Compliance, and 4) Trading.

Client Servicing The Company maintains comprehensive account opening practices in line with regulatory requirements. The Company offers online trading platform to its clients. Account statements are provided to the clients as per the regulatory requirements.

Complaint Management The Company has a well-defined complaint management system in MIS. Complaints can be made via email and calls. It is timely updated and quarterly reviewed by the compliance officer. There is a maximum time of 72 hours by which all reports must be closed and catered to.

Extent Of Automation / Integration IT Procedure and Manual are given to every employee whereby only authorized traders are allowed to access KATS System and the same applied for back office. Data is currently saved on the back-office system with its backup in the main server. The IT system in place is equipped to handle over 5000 trades per day.

Continuity Of Operations There is present a backup file that is stored in a separate hard drive as a preventive measure in case of any disaster. Access to the hard drive is kept within to the management and back-office personnel. In case of Disaster, Separate KATS, CDC, and NCCPL terminal are installed in the Head Office of the company which can be activated through email.

Risk Management Framework Amanah Investments Limited has an adequate risk management framework. In-House training is provided to every staff upon his/her joining. Moreover, an average of 4 training sessions is conducted per quarter to educate the staff about AML CFT policies and risk management.

Regulatory Compliance The compliance department, headed by Mr. Muhammad Irfan and supported by Mr. Jahangir Jawed who ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures.

Business Sustainability

Business Risk Despite of attractive market fundamentals, during CY21 through October, the stock market has delivered a modest 5.6% return. The prevailing market valuations reflect overblown pessimism and positive view on the stock market are driven by: (i) attractive valuations, (ii) robust corporate profitability, (iii) abundant market liquidity, and (iv) easier financial conditions. The successful completion of the review will pave the way for the release of the USD 1bln from the IMF and facilitate flows from other multilateral agencies such as the Asian Development Bank, World Bank, and Islamic Development Bank. The upcoming reclassification from emerging to frontier markets may also improve the market volumes as experienced in the past.

Business Profile All's primarily provide equity brokerage service with Shariah Compliant approach.

Revenue And Profitability Analysis The Company posted net profits of ~PKR: 74.6mln (FY20: net profit ~PKR: 4.9mln). The profit can be attributable to the significant increase in unrealized gains on revaluation of investments.

Financial Sustainability

Credit Risk The Company has detailed KYC/CDD procedures in place for the assessment of the client's creditworthiness.

Market Risk The Company is running its own proprietary book which constitutes ~78% of Equity at end-Jun'21. However, ~70% of the investments are strategic in nature and are placed for long term.

Liquidity Profile The Company reported current assets of ~PKR 217mln for FY21 as compared to current liabilities of ~PKR 35mln. Liquid assets are considered adequate to account for current liabilities of the Company.

Financial Risk Amanah has an adequate capitalization level with regulatory Net Capital Balance (NCB) standing at PKR~135mln at end-Jun'21. The Company has adequate risk absorption capacity reflected by an increasing equity base of PKR~221mln as of FY21; however, reliance on revaluation gains creates a risk of equity erosion in case of market downfall.



Amanah Investments Limited
Public Unlisted

Jun-21	Jun-20	Jun-19	Jun-18
12M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	201	136	131	158
3 Other Earning Assets	13	2	2	30
4 Non-Earning Assets	43	34	20	14
5 Non-Performing Finances-net	-	-	-	-
Total Assets	257	172	153	201
6 Funding	2	2	2	3
7 Other Liabilities (Non-Interest Bearing)	34	23	9	29
Total Liabilities	36	25	11	32
Equity	221	147	142	169

B INCOME STATEMENT

1 Fee Based Income	6	1	1	1
2 Operating Expenses	(9)	(4)	(32)	(24)
3 Non Fee Based Income	80	9	5	11
Total Operating Income/(Loss)	77	6	(26)	(13)
4 Financial Charges	-	(0)	(0)	(0)
Pre-Tax Profit	77	6	(26)	(13)
5 Taxes	(2)	(1)	(1)	(1)
Profit After Tax	75	5	(27)	(15)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)

Return on Equity (ROE)

0.0%	0.0%	0.0%	0.0%
603.1%	33.9%	-166.1%	-167.6%

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)

86.2%	85.3%	93.0%	84.0%
-0.44	-0.75	-1.23	-1.17

3 Liquidity

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

Liquid Assets / Trade Related Liabilities

67.2%	63.7%	71.0%	56.5%
527.9%	469.4%	1261.9%	387.3%

4 Credit & Market Risk

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

Equity Instruments / Investments

0.4%	0.0%	0.0%	0.0%
100.0%	100.0%	100.0%	100.0%

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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(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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- (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.
- (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)
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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 | 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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