



The Pakistan Credit Rating Agency Limited

Rating Report

AHM Securities (Pvt.) Limited | BMR

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Jun-2022	BMR3+	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

AHM Securities (Pvt.) Limited (“AHM” or “the Company”) is primarily engaged in the provision of equity brokerage services with the retail segment as the major part of overall clientele. The Company has a lean organizational structure where all the departmental heads reports to the CEO except the company secretary who reports to the board of directors. The rating takes note of the experienced and qualified management team and adequate internal control framework. The company secretary is also looking after the compliance department which could be made independent to improve its functionality. Formation of an independent risk management department is encouraged. The rating accounts for the adequate client services including online trading, mobile-app, real-time transaction alerts and complaint resolution process. The rating takes comfort from the sound financial profile of the main sponsor. The governance framework has room for improvement with the inclusion of qualified and independent directors. Increasing the board size may also result in creation of independent committees at the board level. The Company has a competitive clientele; however, limitation exist in terms of revenue diversification. On the back of improved trading activity at PSX, the Company experienced a significant improvement in brokerage revenue in FY21. However, the recent uncertainty in the equity market amid ongoing political tension may have an adverse impact on topline for FY22. The equity has also been improved in FY21 owing to the improvement in topline and the contribution from capital gains on equity market exposure. The Company is running a proprietary book which may expose it to market risk and results in conflict of interest. A low leveraged capital structure provides comfort. Going forward, the Company has planned to focus on institutional and corporate clientele.

Going forward, improvement in core income, market share and profitability and materialization of planned business strategies remains critical. Meanwhile, upholding strong internal controls, sound governance structure, retention of key management personnel and diligent monitoring of risks is important.

Disclosure

Name of Rated Entity	AHM Securities (Pvt.) 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-22)
Rating Analysts	Ayesha Qasim ayesha.qasim@pacra.com +92-42-35869504



Ownership

Ownership Structure Ownership of the Company lies within the same family. Mr. Adam Haji Muhammad holds ~99.6% of the ownership. Rest of the shareholding lies with Mr. Anis Haji Muhammad and Mr. Feroz Haji Muhammad.

Stability The successors have been identified within the family; however, a formal succession plan is encouraged.

Business Acumen The Chairman, Mr. Adam Haji Muhammad possesses enormous experience in capital markets, he has been working as a stock broker for over 25 years.

Financial Strength Mr. Adam Haji Muhammad has a sizeable net worth. Further capital may be injected in the Company with increasing quantum of operations and on need basis.

Governance

Board Structure The board of directors comprises of three members all of whom are the shareholder family members. The board has room for improvement which could be enhanced by increasing the board size and inclusion of independent insight.

Members' Profile The Chairman, Mr. Adam Haji Mohammad is part of the board as well. He possesses the necessary skills and experience required for capital markets and is the primary source of expertise at board level.

Board Effectiveness Currently, there are two board committees namely i) audit committee and ii) risk management committee at the board level; the presence of independent director may further improve the effectiveness.

Financial Transparency The external audit of the Company is being carried out by M/s UHY Hassan Naem & Co Chartered Accountants. The auditors have expressed unqualified opinion on the financial statement for the FY21. The audit firm falls in the Category 'B' of SBP's panel of auditors.

Management

Management Team The CEO - Mr. Hammad Tahir, Mr. Nauman Yousaf, Mr. Muhammad Faraz, and Mr. Javaid Akhtar are integral part of the senior management. The senior management boast creditworthy educational credentials. Mr. Hammad Tahir holds a Master's degree in Business Administration and Economics. He has been with the Company since its inception and serves as the Chief Executive Officer.

Organizational Structure The Company has a lean organizational structure where all the departmental heads reports to the CEO. The functions of the Company are mainly divided into 1) Operations 2) Finance 3) Internal audit and Compliance 4) Equity Trading.

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

Complaint Management An adequate complaint management system is in place. Complaints can be made via e-mail, SMS and calls. Contact number and designated email is provided to lodge the complaints.

Extent Of Automation / Integration AHM has a technology driven trading platform that allows seamless and secure trading. It facilitates the market participants to connect from across the globe and trade virtually. The system provides real time portfolio updates and trade executions along with the real time market quotes.

Continuity Of Operations AHM has a disaster recovery plan in place to ensure business continuity at the time of disaster. Off-site data back up facility is also in place.

Risk Management Framework The risk management framework revolves around the risk management committee. The committee review, measure and assess risk practices of the Company and review risk measurement and assessment, risk mitigation, risk reporting and monitoring.

Regulatory Compliance The compliance department is being headed by Mr. Mahmood Hameed Moten, who is also acting as company secretary. Segregation of compliance from other functions is encouraged.

Business Sustainability

Business Risk Pakistan's economy during CY21 made a recovery, with the market volumes reaching historic high levels; however, during the first 10 months of FY22, the market volumes have decreased resulting in pressure on brokerage revenue. The rebalancing of MSCI gives an indication to a hopefully better upcoming quarter with expectations of greater international investment; however, the escalating tension and supply chain constraints due to the Russia and Ukraine war have destabilized the capital markets, creating an uncertain future for the market. The recent political turmoil inside the country have further derailed the market conditions, making it difficult to ascertain the future of the market moving forward. Going forward, the recent increase in interest rate should help moderate the demand to more sustainable pace while keeping inflation expectations anchored and containing risks to external stability. During 3QFY22, the traded volumes of the market reduced due to the political turmoil and low investor confidence in the stock market.

Business Profile Primary activities of the Company is limited to Equity brokerage. In terms of the value of traded shares, the Company has a ~0.9% market share in the ready and future equity market.

Revenue And Profitability Analysis AHM's operating revenue is concentrated to equity brokerage. Operating revenue comprises of commission income and unrealized/realized gain/loss on re-measurement of investments. During FY21, brokerage commission stood at ~PKR 64mln (SPLY: ~PKR 7mln) and contributed ~57% to the total revenue. However, revenue is reduced to ~PKR 16mln in 1HFY22 in line with the market volumes. AHM reported net profit of ~PKR 57mln in FY21 compared to a loss of ~PKR 2mln in FY20. The Company has reported net loss of ~PKR 3mln for the 1HFY22.

Financial Sustainability

Credit Risk Credit risk is managed through detailed KYC/CDD procedures in place for the assessment of client creditworthiness. The entire CDD process is comprehensive and well documented, especially in the account opening and client risk assessment stages. At end-FY21, trade debts stood at ~PKR 51mln (FY20: ~PKR 13mln).

Market Risk The Company is running prop-book with the market value of ~PKR 57mln which constitutes ~33% of the equity at end- Jun'21. The gain on Prop-book is ~48.6% of the total revenue at end-Jun'21 (SPLY: ~15%). Prop book stood at ~PKR 39mln, ~25% of the equity at end- Dec'21.

Liquidity Profile AHM has adequate liquidity profile. The Company reported current assets of ~PKR 409mln for FY21 as compared to current liabilities of ~PKR 275mln.

Financial Risk The Net Capital Balance stood at ~PKR 105mln at end-Jun'21 and improved to ~PKR 115mln at end-Dec'21. The Company has an equity base of ~PKR 173mln at end-Jun'21 (SPLY: ~PKR 95mln) and declined to ~PKR 155mln at end-Dec'21.



PKR mln

AHM Securities (Pvt.) Limited
Private Limited

Dec-21	Jun-21	Jun-20	Jun-19
6M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	62	95	81	69
3 Other Earning Assets	19	69	3	5
4 Non-Earning Assets	298	289	115	82
5 Non-Performing Finances-net	-	-	-	-
Total Assets	379	453	199	155
6 Funding	0	24	22	-
7 Other Liabilities (Non-Interest Bearing)	223	256	82	53
Total Liabilities	223	279	104	53
Equity	155	173	95	103

B INCOME STATEMENT

1 Fee Based Income	17	64	7	7
2 Operating Expenses	(20)	(49)	(22)	(23)
3 Non Fee Based Income	(0)	49	13	(14)
Total Operating Income/(Loss)	(3)	63	(1)	(31)
4 Financial Charges	(0)	(1)	(1)	(1)
Pre-Tax Profit	(3)	62	(2)	(32)
5 Taxes	-	(5)	(0)	(0)
Profit After Tax	(3)	57	(2)	(32)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	-0.9%	1.8%	-108.0%	-2.2%
Return on Equity (ROE)	-3.7%	80.9%	-8.1%	35.4%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	41.0%	38.3%	47.5%	66.1%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	69.75	23.10	-7.75	-16.31

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	30.6%	19.7%	15.7%	54.8%
Liquid Assets / Trade Related Liabilities	62.0%	40.1%	38.2%	169.4%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	48.1%	20.6%	12.9%	21.1%
Equity Instruments / Investments	37.7%	40.4%	21.1%	32.6%

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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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.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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)
- (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)

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- (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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