



The Pakistan Credit Rating Agency Limited

Rating Report

Aba Ali Habib Securities (Pvt.) Limited | BMR

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Mar-2023	BMR2	-	Stable	Maintain	-
15-Mar-2022	BMR2	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Aba Ali Habib Securities (Pvt.) Limited (“AAH”) is one of the oldest brokerage houses, established in 1970. AAH is primarily engaged in the provision of equity brokerage services while diversity exist in the form of commodity brokerage, MTS, MFS and IPO distribution. The rating signifies a strong internal control environment supported by outsourced internal audit, dedicated compliance department and the presence of audit and risk management committees. However, the extent of policies may be enhanced further with the addition of more detailed guidelines. The availability of online trading, mobile-app, complaint system and research department results in a sound client servicing. AAH has a lean organizational structure with all the required departments in place, the management is experienced; however, depth needs to be built. The assigned rating takes into account a sound business acumen of the sponsor family. The governance framework may be enhanced further with the induction of certified independent directors. AAH actively manages its investment book whereby the funds are strategically moved between equity and fixed income avenues based on market expectations. The ongoing volatility of equity market may impact the commission revenue going forward. Financial assessment indicates a decline of commission on equity brokerage by ~35% during 1HFY23 as compared to 1HFY22. AAH earned revenue from equity brokerage of ~PKR 34mln in the 1HFY23 (1HFY22: ~PKR 52mln) whereas for FY22 it stood at ~PKR 51mln (FY21: ~PKR 101mln). However, the mark-up earned on MTS/MFS has provided support. The Company has a strong equity base of ~PKR 1,024mln at end-Dec’22 (Jun’22: ~PKR 968mln) which provides a cushion against unexpected shocks. The rating takes comfort from a low leveraged capital structure. In the near future, once clarity emerges on the economic and political front, the management has plans to enhance the institutional clientele and to venture into the IPO advisory and underwriting business. The management also intends to improve the technological structure for swift on-boarding of retail clientele. Moreover, geographical diversification is also under consideration to improve client outreach.

Going forward, improvement in core income, sustainability of 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	Aba Ali Habib Securities (Pvt.) Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Assessment Framework Broker Management Rating(Jun-22)
Related Research	Sector Study Brokerage & Securities(Jan-23)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504



Ownership

Ownership Structure Aba Ali Habib Securities (Pvt.) Limited (AAH or The Company") is a family owned Company with the majority ownership belonging to Mr. Aba Ali Habib (99.99%).

Stability The sponsors have sizeable net worth and may provide support to the business in the times of need. Formulation of a well defined succession plan at the shareholder level is encouraged for business sustainability.

Business Acumen The primary sponsor Mr. Aba Ali Habib has been associated with the capital markets for over forty years, and has diversified experience in the field of equity brokerage.

Financial Strength The sponsors have a sizeable net worth and provide support to the Company in the times of need.

Governance

Board Structure AAH's board is comprised of six directors including the CEO Mr. Zahid Ali Habib, while four of the directors are non-executive. Inclusion of independent directors on board may result in further strengthening of the overall governance structure.

Members' Profile Mr. Abid Ali Habib has a vast experience of over 30 years of Pakistan's capital market. He has been elected as Director of Pakistan Stock Exchange for eight times and Chairman of Trading Affairs Committee, Information Technology Committee, New Product Committee, Company Affairs Committee and Index Committee. He has been director of Central Depository Company and National Clearing Company various times and represented as nominee at various International forums. Mr. Muhammad Munir is a qualified Chartered Accountant. He possess more than 20 years of experience in Capital Market, Asset Management and Mutual Fund Management.

Board Effectiveness AAH has established an Audit Committee, Investment Committee, HR Committee and Risk Management Committee at the Board level.

Financial Transparency AAH has appointed M/S Naveed Zafar Ashfaq Jaffery & Company as the external auditors who are placed in the 'A' category by the SBP. The auditors have expressed an unqualified opinion on the Company's financial statements for the year ended June'22. AAH has also outsourced its internal audit department to Afras & Co.

Management

Management Team The management is experienced to manage the Company's operations efficiently; however, the quality may be improved by providing the opportunity to attend further courses and trainings in the relevant field. The CEO, Mr. Zahid Ali Habib holds an MBA in Finance from Institute of Business Administration. He has an extensive experience of over 25 years in the areas of fund management, capital markets, brokerage operations and regulatory affairs.

Organizational Structure AAH has developed an adequate organizational structure and operates through eight departments namely i) Operations ii) Finance iii) Compliance iv) Sales v) Proprietary Trading vi) IT vii) Research and, viii) Human Resource. All of the departmental heads directly report to the CEO. However, the Internal Audit which is outsourced, directly reporting to the Board Audit Committee.

Client Servicing AAH 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. A research department is also present to cater the needs of institutional clientele.

Complaint Management AAH has provided an electronic form on the face of its website to lodge online complaints and complaints can be made via e-mail and calls. The customer service department is responsible for the complaint management system.

Extent Of Automation / Integration AAH's front end is sourced by 'Catalyst' while the back-end is supported by 'Micro-links'. There is smooth integration between the two which ensures smooth daily operations.

Continuity Of Operations AAH has established a recovery plan for all essential infrastructures elements, systems, networks and key business activities. AAH has a separate back-up server located at the PSX building in Karachi, and data is backed up on a daily basis.

Risk Management Framework The risk management framework revolves around the risk management committee headed by the Chairman Mr. Abid Ali Habib. To ensure operational efficiency and appraisal of internal controls, the AAH has outsourced the internal audit department, which implements and monitor the policies and procedures of the Company. Formation of an independent risk management department would be a positive factor.

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 Pakistan's economy is placed at a precarious point right now. The resumption of the IMF program is necessary to have access to much-needed foreign inflows to boost the critically low SBP forex reserves. Inflation has been consistently rising and is forecasted to rise further. The policy interest rates have increased to try and curb inflation, which has impacted the volumes for the brokerage industry as investors are opting for safer fixed-income returns instead of riskier equity investments. Moving forward, resolving the Letter of Credit (LC) issues remains imperative to allow manufacturers to resume their operations and restart the economic activity in the country.

Business Profile AAH provides the services of equity brokerage; however, the income from MTS, MFS and IPO distribution has provided diversity. AAH enjoys a market share of 4.9% on volume traded basis in 1HFY23. Going forward, AAH intends to initiate the fixed income desk and also considering to acquire the underwriting license from SECP.

Revenue And Profitability Analysis The revenue from equity brokerage has declined to ~PKR 34mln for 1HFY23 as compared to a revenue of ~PKR 51mln in 1HFY22. The decline in revenue commensurate with the fall in trading volumes at the bourse. However, the income from MTS/MFS has provided support with a contribution of ~PKR 39mln. The profit after tax stood at ~PKR 56mln for 1HFY23 (1HFY22 : Profit of ~PKR 113mln).

Financial Sustainability

Credit Risk AAH has formulated KYC/CDD policies to assess the clients creditworthiness. Client risk profile with respect to the financial position is also maintained. Credit is allowed up to 35% on margin in cash or cash equivalent. Risk control parameters are inbuilt in the system preventing the clients from taking further positions.

Market Risk AAH is actively running a proprietary book which exposes AAH to Market Risk. However, as part of the investment strategy the management reallocates the funds from equity towards fixed income based on market outlook.

Liquidity Profile AAH has reported current assets of ~PKR 1,596mln for 1HFY23 as compared to current liabilities of ~PKR 593mln resulting in a strong liquidity profile. AAH has also made arrangement with different banks for short-term running finance in case if any liquidity need arises.

Financial Risk AAH has a leverage free capital structure while the short-term borrowings are being utilized to fund the exposure margin requirements. AAH's equity stood at ~PKR 1023mln at end-Dec'22 as compared to equity of ~PKR 933mln at end-Jun'22.



PKR mln

**Aba Ali Habib Securities (Pvt.) Limited
Private Limited**

Dec-22	Jun-22	Jun-21	Jun-20
6M	12M	12M	12M

A BALANCE SHEET

1 Finances	499	326	318	24
2 Investments	906	580	475	853
3 Other Earning Assets	1	4	87	3
4 Non-Earning Assets	212	251	365	269
5 Non-Performing Finances-net	0	0	0	0
Total Assets	1,617	1,162	1,245	1,149
6 Funding	228	97	37	420
7 Other Liabilities (Non-Interest Bearing)	365	96	221	153
Total Liabilities	594	193	259	573
Equity	1,024	968	986	577

B INCOME STATEMENT

1 Fee Based Income	73	108	114	76
2 Operating Expenses	-40	-90	-101	-73
3 Non Fee Based Income	33	-23	420	18
Total Operating Income/(Loss)	67	-5	434	20
4 Financial Charges	-11	-12	-20	-15
Pre-Tax Profit	56	-17	414	5
5 Taxes	0	-0	-7	-3
Profit After Tax	56	-18	407	3

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	15.8%	-235.8%	4.6%	73.5%
Return on Equity (ROE)	18.6%	-1.4%	200.4%	0.6%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	63.3%	83.3%	79.2%	50.2%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	532.0%	480.4%	175.1%	92.3%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	59.4%	58.3%	55.3%	85.0%
Liquid Assets / Trade Related Liabilities	1724.7%	1194.6%	768.6%	788.9%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	2.9%	32.0%	104.6%	1.4%
Equity Instruments / Investments	100.0%	100.0%	100.0%	100.0%

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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(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)

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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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