



The Pakistan Credit Rating Agency Limited

Rating Report

Aba Ali Habib Securities (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Mar-2024	A-	A2	Stable	Maintain	-
15-Mar-2023	A-	A2	Stable	Maintain	-
31-May-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Aba Ali Habib Securities (Pvt.) Limited (“AAH” or “the Company”) is primarily engaged in the provision of equity brokerage, alongside offering services of commodity brokerage and MFS/MTS. The clientele is fairly diversified between institutions/corporates and HNWIs/Retails. During FY22 and FY23, the brokerage industry faced challenges due to low investor interest caused by high-interest rates and inflation. Investors favored safer fixed-income returns over equities. However, 1HFY24 witnessed a surge in investor interest, driving the KSE-100 index to historic highs. Market stabilization is expected in FY24. On the other hand, political sentiments play a key role and the focus remains on the Government after recent elections to provide answers to economic stability. Moreover, continued support from the IMF remains critical. 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 has a lean organizational structure, with most department heads reporting directly to the CEO. With seasoned management at the helm, AAH boasts a robust and well-established control framework. During 1HFY24, the market volumes rose by ~27% compared to 1HFY23, whereas AAH experienced a modest uptick of ~14% in revenue from equity brokerage during the same period. During 1HFY24, the Company earned a brokerage revenue of ~PKR 39mln (SPLY: ~PKR 34mln) and the income from MFS/MTS and dividend income has provided support with a contribution of ~PKR 38mln and ~PKR 16mln respectively. AAH reported a net profit of ~PKR 309mln during 1HFY24 (SPLY: a net profit of ~PKR 56mln). The reasons behind the profit increase are twofold: first, there has been a reduction of ~49% in finance costs. Second, a capital gain of ~PKR 65mln and a gain of ~PKR 192mln on remeasurement of investments during 1HFY24 contributed to the profitability. AAH has a strong equity base of ~PKR 1,362mln at end-Dec’23 (SPLY: ~PKR 1,024mln). AAH actively manages its investment book whereby the funds are strategically moved between equity and fixed income avenues based on market expectations, thus managing its market risk. As part of its long-term strategic plans, AAH is planning to diversify its geographical expansion to improve retail clientele. The management also intends to improve the technological structure for swift on-boarding of retail clientele.

Moving forward, the materialization of planned revenue and geographical diversification is important for the rating. Maintenance and enhancement of market share and sustainability and growth in revenue and profitability remain vital. Meanwhile, it is imperative to uphold robust internal controls, retention of key management personnel, and diligently monitor risks.

Disclosure

Name of Rated Entity	Aba Ali Habib Securities (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Broker Entity Rating(Aug-23)
Related Research	Sector Study Brokerage & Securities(Jan-24)
Rating Analysts	Hassaan Ahmad Hassaan.Ahmad@pacra.com +92-42-35869504



Profile

Background Aba Ali Habib Securities (Pvt.) Limited ("AAH" or "The Company") is a TREC holder of Pakistan Stock Exchange and a Member of Pakistan Mercantile Exchange Limited. The Company has been operating since 1970 and was incorporated under the "Companies Ordinance 1984" in 1996 as a Private Limited Company. The Company is registered with the Securities & Exchange Commission of Pakistan (SECP) under Securities Brokers (Licensing and Operations) Regulations 2016.

Operations The Company's service offering includes equity brokerage, commodity brokerage and research. The clientele of the Company is segmented into three categories: i) HNWLs ii) Institutions/Corporates, and iii) Retail.

Ownership

Ownership Structure The Company is primarily owned by a single family. The majority shares are owned by Mr. Aba Ali Habib who owns ~99.998% of the ownership.

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 three 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.

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'23. AAH has also outsourced its internal audit department to Afras & Co.

Management

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.

Management Team The management is experienced to manage the Company's operations efficiently; however, the quality may be improved further by nurturing of educational profile. 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.

Management Effectiveness 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.

Control Environment 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 Company has outsourced the internal audit department, which implements and monitors the policies and procedures of the Company. Formation of an independent risk management department would be a positive factor. Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures.

Business Risk

Industry Dynamics The brokerage industry faced extremely low years during FY22 and FY23 due to limited investor interest. High interest rates and crippling inflation resulted in investors opting for safer fixed income returns instead of the riskier equities markets. The trend continued during 1HFY23; however, 2HFY23 experienced a surge in investors interest, pushing the KSE-100 index to historic high. The 1HFY24 is expected to stabilize in terms of market volumes and the index trading between the 60k and 70k point range, with expectations of another surge as market P/E ratio is still hovering around the low 5.5x mark. On the other hand, political sentiments play a key role and the focus remain on the Government after recent elections to provide answers to economic stability. Moreover, continued support from the IMF remain critical.

Relative Position AAH primarily provides the services of equity brokerage; however, the income from MTS, MFS and IPO distribution has provided diversity. Going forward, AAH intends to initiate the fixed income desk.

Revenues The revenue from equity brokerage has increased to ~PKR 39mln for 1HFY24 as compared to a revenue of ~PKR 34mln in 1HFY23. The rise in revenue aligns with the increase in trading volumes at the exchange. However, the income from MTS/MFS and dividend income has provided support with a contribution of ~PKR 38mln and ~PKR 16mln respectively.

Cost Structure The administrative expenses have declined in 1HFY24 to stand at ~PKR 37mln as compared to ~PKR 40mln in 1HFY23. AAH earned a net profit of ~PKR 309mln in 1HFY24 as compared to a net profit of ~PKR 56mln in 1HFY23.

Sustainability Going forward, the Company has planned to build its retail client base for which the Company is considering to enhance its geographical diversification with facilitation centers and new branches.

Financial Risk

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 Risk AAH has reported current assets of ~PKR 1,954mln for 1HFY24 as compared to current liabilities of ~PKR 611mln 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.

Capital Structure 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 1,362mln at end-Dec'23 as compared to equity of ~PKR 1,053mln at end-Jun'23.



PKR mln

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

Dec-23	Jun-23	Jun-22	Jun-21
6M	12M	12M	12M

A BALANCE SHEET

1 Finances	346	70	326	318
2 Investments	1,152	868	580	475
3 Other Earning Assets	26	6	4	87
4 Non-Earning Assets	450	328	251	365
5 Non-Performing Finances-net	-	-	-	-
Total Assets	1,974	1,273	1,162	1,245
6 Funding	264	132	97	37
7 Other Liabilities (Non-Interest Bearing)	347	67	96	221
Total Liabilities	611	199	193	259
Equity	1,362	1,074	968	986

B INCOME STATEMENT

1 Fee Based Income	76	70	108	114
2 Operating Expenses	(37)	(64)	(90)	(101)
3 Non Fee Based Income	275	122	(23)	420
Total Operating Income/(Loss)	315	128	(5)	434
4 Financial Charges	(5)	(19)	(12)	(20)
Pre-Tax Profit	309	109	(17)	414
5 Taxes	-	(3)	(0)	(7)
Profit After Tax	309	106	(18)	407

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	1.7%	14.6%	-235.8%	4.6%
Return on Equity (ROE)	254.2%	28.1%	-1.4%	200.4%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	69.0%	84.4%	83.3%	79.2%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long	5763.7%	153.3%	480.4%	175.1%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	73.2%	81.7%	58.3%	55.3%
Liquid Assets / Trade Related Liabilities	1488.4%	2257.3%	1194.6%	768.6%

4 Credit & Market Risk

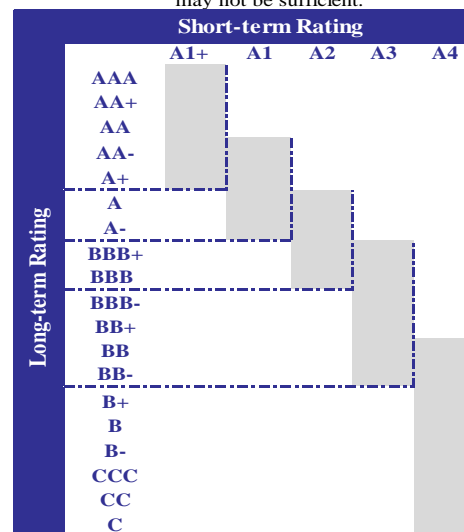
Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to C	63.5%	75.8%	32.0%	104.6%
Equity Instruments / Investments	100.0%	100.0%	100.0%	100.0%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB	
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) 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.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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Rating Team Statements

(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

Restrictions

- (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)

Independence & Conflict of interest

- (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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