



The Pakistan Credit Rating Agency Limited

Rating Report

BMA Asset Management Company Limited

Report Contents

1. Rating Analysis
2. Rating Scale
3. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Sep-2021	AM4++	-	Stable	Maintain	Yes
06-Sep-2020	AM4++	-	Stable	Maintain	Yes
06-Sep-2019	AM4++	-	Stable	Downgrade	-
08-Mar-2019	AM3	-	Negative	Maintain	-
28-Dec-2018	AM3	-	Stable	Maintain	-
30-Jun-2018	AM3	-	Stable	Maintain	-
22-Dec-2017	AM3	-	Stable	Maintain	-
17-May-2017	AM3	-	Stable	Maintain	-
08-Jun-2016	AM3	-	Stable	Harmonize	-
31-Mar-2016	AM3-	-	Stable	Downgrade	-

Rating Rationale and Key Rating Drivers

The rating reflects the BMA Asset Management Company Limited's (or the "Company") modest market share, limited fund slate, eroding equity base due to operational loss and adequate senior management. The Company's AUMs stood at ~PKR 435mln, at end Jun'21 (Jun'20: ~PKR 213mln) with market share of only ~0.04%. The equity of the Company remained under pressure due to losses and currently stands at PKR 171mln at end Jun'21, which is below the regulatory requirement and leads to non-compliance. The senior management is relatively new and the sole purpose of this restructuring is to focus on portfolio advisory and enhance the revenue from this stream. As the Company also offers Investment Advisory Services, therefore, additional equity of PKR 30mln would be required. Funds performance remained below benchmark in FY21. The investor concentration remains high (top ten investors: 93%).

The rating is dependent on operational and financial viability of the company and timely fulfillment of minimum regulatory equity requirement through equity injection from sponsors. Growth in AUMs, achieving sustainable profitability, improvement in organizational structure and timely hiring of key individuals remain imperative for the rating.

Disclosure

Name of Rated Entity	BMA Asset Management Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Methodology Asset Manager Rating(Jun-21)
Related Research	Sector Study Asset Managers(Jun-21)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@pacra.com +92-42-35869504

The Pakistan Credit Rating Agency Limited

Profile

Structure BMA Asset Management Company (or "The Company") is a public unlisted company.

Background BMA Asset Management Company was incorporated in April 2005 and obtained the license to carry out investment advisory and asset management services in April 2005 and July 2005, respectively.

Market Share The Company has a small market share. It currently stands at ~0.04% only at end Jun'21 (Jun'20: 0.03%)

Diversification Of Fund Mix The Company has two funds under management, BMA Empress Cash Fund in the money market category and BMA Chundrigar Road Saving Fund in the aggressive fixed income category.

Investor Concentration The average top ten investors concentration is high (~93% of the assets under management) which exposes the funds to high redemption pressure. Whereas the average related party holding is 31% as at end Jun'21.

Ownership

Ownership Structure The Company is a wholly owned subsidiary of BMA Capital Management

Business Acumen BMA Group ranks amongst one of the oldest financial services group in Pakistan. It offers its services to a large and diversified group of clients including top financial institutions, foreign and local corporates and high net worth individuals. It has played key role in the country's privatization transactions through its corporate advisory function. BMA Capital's retail brokerage brand 'BMA Trade' enables individual investors to take part in the capital markets.

Financial Strength BMA Capital's financial strength emanates from its core areas of business which include equity markets, treasury markets, corporate finance and advisory, research, retail brokerage and financial products distribution. Long term rating of BMA Capital is A- and short term is A-2. The equity base of BMA Capital was PKR 757mln at end Dec'20.

Governance

Board Structure The Company's three member board comprises one independent and two non-executive directors.

Members' Profile Mr. Salim Khan was appointed as the chairman of the board in October 2017. He possesses vast experience in strategic human resource consultancy and organizational development.

Board Effectiveness The board exercises close monitoring of the accounting and financial reporting and hiring process through its audit and HR committees. The committees are headed by Mr. Shakeib Ali Arshad.

Transparency The internal audit function has been outsourced to Deloitte. The board's audit committee monitors the performance of the internal audit function on a quarterly basis. RSM Avais Hyder Liaquat Nauman (A category) are the external auditors.

Management

Organizational Structure Organizational structure of the Company has been divided into five major departments. Currently, in the absence of CEO, all departmental heads are reporting to the Board. The compliance and risk management functions are overseen by one person.

Management Team The management team comprises seasoned professionals. In Aug'20, Mr. Mian Qasim Saeed Ahmed joined as a CEO in place of Mr. Khaldoon bin Latif. Mr. Mian Qasim Saeed Ahmed has a vast experience of 15 years. Mr. Muhammad Salman is the CFO of the Company since 1.5 years. He is MBA in Banking and Finance and has vast experience of approx 15 years in his field.

Technology Infrastructure The Company has procured advanced core asset management software, Asset Connect which is developed by Softech. It provides general accounting ledger and unit holding management modules.

Control Environment The outsourced internal audit function apprises its findings and ensures that the management takes appropriate actions to rectify the highlighted issues. The Company has devised detailed risk management policy which properly addresses the risks related to investment operations.

Investment Risk Management

Credit Risk The scope of risk management department remains limited pertaining to the investment risk management. The fund manager monitors the credit risk of the portfolio and ensures that the risk is broadly diversified.

Liquidity Profile Sufficient liquidity is maintained by investing significant portion of the funds' assets in liquid investment avenues. The risk management department regularly generates MIS reports for assessing liquidity risks.

Market Risk The Company measures its exposure to market risk factors using appropriate metrics (sensitivity analysis and stress testing). The head of risk management department periodically reviews market risk exposure and prepares reports on market risk analysis.

Portfolio Management

IC Composition The investment committee comprise CEO, CFO, Head of Investments and Fund manager.

Effectiveness The IC meetings are held monthly for analyzing potential investment proposals for the SMA portfolios and funds under management.

Investment Research And Analysis The research department comprise two individuals at analyst position; however, the position of head of research is vacant. The Company provides investment advisory services to high net worth individuals and corporate customers through Separately Managed Accounts.

Customer Relationship

Investor Services The investor services department falls under the purview of the business development and sales department. The department provides personalized solutions, investor education and client reporting. Two customer relationship management software are in place for customer facilitation.

Investor Reporting The Company has deployed investor reporting module which performs live reporting and summarizes current holdings, realized/un-realized gain or loss accumulated during a day, trades proceeded in a day, current asset allocation, invoices charged over the years and active mandates.

Distribution And Sales Network The Company has established distribution arrangement both for its SMAs and mutual fund divisions with its parent company, BMA Capital along with a number of other distributors. The sales team has been strengthened with the addition of experienced resources.

Performance

Asset Under Management The assets under management stood at PKR 435mln end Jun'21 (Dec'20: PKR 434mln). The Company's market share has increased by 0.01%. The fund performance of BMA Empress Cash fund and BMA Chundrigar Road Savings fund remained below their respective benchmark.

Asset Manager The Company's loss after tax for the year end Jun'21 decreased by ~78% and stood at ~PKR -9.6mln (SPLY : ~PKR -43.3mln). The core-income has increased by ~35% and stood at ~PKR 20mln (SPLY: ~PKR 14.8mln). The equity decreased by ~5% and stood at ~PKR 171mln at end Jun'21 (SPLY: ~PKR 180mln) which does not fulfill minimum regulatory equity requirement of PKR 230mln for an asset management company providing advisory services.

Fund's Performance BMA Funds												
Sr. No.	Fund Name	Category	Weight (%)	AUMs (PKR '000')			Returns Jun'21					Top Ten Investors Concentration
				Growth %	Jun'21	Dec'20	Return	Ind. Avg.	Bench.	Fund vs. Industry	Fund vs. Bench.	
1	BMA Empress Cash Fund	Money Market	73.8%	0.7%	321	319	6.27%	6.56%	6.77%	-0.3%	-0.5%	93%
2	BMA Chandrigar Road Savings Fund	Aggressive Fixed Income	26.2%	-1.0%	114	115	5.80%	5.37%	8.07%	0.4%	-2.3%	93%
Sum/Average:			100%		435	434						

Asset Manager Rating

An independent opinion on the quality and expertise deployed by an asset management company

Scale	Definition
AM1	Very high quality. Asset manager meets or exceeds the overall investment management industry best practices and highest benchmarks.
AM2++ AM2+ AM2	High quality. Asset manager meets high investment management industry standards and benchmarks with noted strengths in several of the rating factors.
AM3++ AM3+ AM3	Good quality. Asset manager meets investment management industry standards and benchmarks.
AM4++ AM4+ AM4	Adequate quality. Asset manager demonstrates an adequate organization that meets key investment management industry standards and benchmarks.
AM5	Weak. Asset manager does not meet the minimum investment management industry standards and benchmarks.

<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) 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.</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)
- (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.
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- (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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- (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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- (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)
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- (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)

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