



The Pakistan Credit Rating Agency Limited

Rating Report

EFG Hermes Pakistan Limited | BMR

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Dec-2020	BMR2+	-	Stable	Maintain	-
27-Dec-2019	BMR2+	-	Stable	Maintain	-
28-Jun-2019	BMR2+	-	Stable	Maintain	-
28-Dec-2018	BMR2+	-	Stable	Maintain	-
02-Mar-2018	BMR2+	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflect EFG Hermes Pakistan Limited's ("EFG Hermes" or "The Company") association with an international financial services group "EFG Hermes" having access to emerging and frontier markets. The Company has carved its footprint in thirteen countries across four continents, spanning 35 years of growth. The assigned rating incorporate company's adequate market share, well built governance structure and satisfactory operating profitability. The rating also reflect presence of experienced management at helm, satisfactory risk management and internal control framework and compliance with regulatory affairs. Following the recent boom in traded volumes of stock exchange, the core revenue of the Company remained buoyant and the Company maintained its market share at ~3%. The Company does not maintain proprietary investments hence, less exposed to market risk. The mechanism of risk assessment, complaint management procedures, fortnightly MIS reports and adequate customer services provide comfort to the rating. Further, appointment of 'A' category auditors and establishment of two board level committees augurs well for insightful monitoring. The Net Capital Balance of the company clocked in at ~PKR 370mln with an equity base of ~PKR 138mln as at end Sep'20 whereas, the net profit after tax and net equity of the Parent Company stood at ~EGP 426mln and ~EGP 13.6bln. The topline of the EFG Hermes Pakistan lacks diversification in revenue stream and concentrated to the equity brokerage income which clocked in at ~PKR 128mln at end Sep'20 (SPLY: ~PKR 70mln). The Company earned profit amounting to ~PKR 0.49mln during 3QCY20 (3QFY19: ~PKR 56.6mln loss).

The rating are dependent on maintenance of rating benchmarks. Retention of key personnel, improvement in customer servicing tools and maintaining strong controls will remain vital. Meanwhile, growth in brokerage business, strengthening of internal controls and diligent monitoring of risks will remain critical.

Disclosure

Name of Rated Entity	EFG Hermes Pakistan Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Methodology BMR(Jun-20)
Related Research	Sector Study Brokerage & Securities(Jan-20)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Ownership

Ownership Structure EFG Hermes Pakistan Limited is a subsidiary of EFG Hermes Frontier Holdings LLC, which controls 51% stake in EFG Pakistan. The ultimate owner of the group is EFG Hermes Holding S.A.E (Egyptian Financial Group Hermes Holding Company). Directors, CEO and their spouse and minor children own ~9%, while the remaining 40% stake is held by the general public.

Stability EFG Hermes Pakistan Limited is the subsidiary of an international financial services group "EFG Hermes" having access to emerging and frontier markets. The Company has carved its footprints in thirteen countries across four continents, spanning 35 years of growth.

Business Acumen EFG Hermes Holding S.A.E., established in 1984, is an Egyptian investment bank specializing in securities brokerage, asset management, investment banking and private equity. EFG Hermes is listed on the Egyptian Exchange (EGX) and London (LSE) Stock Exchange. EFG Hermes has offices in thirteen countries including Pakistan and serve clients from the Middle East, North Africa, Europe and the United States.

Financial Strength EFG Hermes Holding S.A.E.'s equity stood at ~EGP 13.6bln as at the end of 3QCY20. The Group made net profit of ~EGP 426mln in 3QCY20.

Governance

Board Structure The Company' board of directors has thirteen members comprising eight non-executive directors, four independent directors and one CEO. The Company has appointed one female director in compliance with CCG requirements.

Members' Profile Mr. Murad Ansari is the Chairman of EFG Pakistan and he is also the co-head of the MENA financials team of EFG Hermes Frontier Holdings LLC. He holds an MBA from Institute of Business Administration and carries sixteen years of professional experience in equity research and sales.

Board Effectiveness EFG Pakistan has two board committees, namely i) Audit Committee and ii) HR and remuneration committee. TOR's for both committees are well defined. Audit committee meets on quarterly basis to review the financial statements and internal audit findings. Audit committee is chaired by an independent director.

Transparency Internal audit function of EFG Pakistan is performed by the parent company. The Company's external auditors are AGN Riaz Ahmad Saqib Gohar & Co, ranked under category "B" as per the SBP rankings. The auditor's issued an unqualified opinion on the financial statements of EFG Pakistan for the year ended CY19.

Management

Management Team The Company has a team of seasoned professionals. Mr. Saad Iqbal is the CEO of the Company. He is a CFA Charter holder and carries around a decade of experience in Pakistan Capital Market industry. Mr. Ahmad Zakir Hafeez is CFO of the Company. He has been associated with the Company since 1999.

Organizational Structure For effective management integration, matrix reporting structure is in place. Key departmental heads have reporting line to respective functions at group level, in addition to reporting to the CEO. This structure provides better oversight while bringing broader exposure and experience to local operations.

Client Servicing A number of value added services are offered to clients including online trading, research portal and mobile app. To attract customers, investor awareness programs are conducted by the company. The company has a strong client reporting mechanism with account statements and market reports communicated to the clients on regular basis.

Complaint Management The Company has sound complaint management system in place. Complaints can be made via email and phone call. The compliance department oversees the complaint handling process.

Extent Of Automation / Integration EFG Pakistan utilizes one of the best trading software "Trade Cast" available to the brokerage industry in the country. The front office software has real time synchronization with the back office ensuring timely reporting for users at all levels.

Continuity Of Operations To ensure business continuity in unforeseen circumstances, EFG Pakistan has formulated an intricate disaster recovery and continuity plan.

Risk Management Framework The group is implementing its policies and procedures at EFG Pakistan through multiple trainings. To avoid market risk, the Company has devised a policy for not taking proprietary stock market exposure. Major developments in the KYC procedures minimizes the credit risk of the Company.

Regulatory Compliance The Company's regulatory compliance revolves around the group risk management and compliance policies in addition to the local legislative requirements. The risk management & compliance department ensures that all the regulatory requirements are fulfilled on timely basis.

Business Sustainability

Business Risk As the COVID-19 pandemic triggered the deepest global recession in decades, The Pakistan Stock Market also remained under par with the world markets. The SBP responded the unprecedented situation, by addressing monetary easing and debt moratorium. Whereas, certain proactive measures taken by SECP of trading halts, circuit limits, relaxation in Base Minimum Capital (BMC) requirements, and linking of short sell with uptick/zero plus rule, were geared to provide respite to the market participants During 11MCY20 KSE-100 index witnessed a seesaw situation but maintained the momentum despite continuous hiccups. The bourse touched the highest point of 43,219 on 13th Jan'20, after which it started dropping to hit the low of 27,228 on 25 Mar'20. Currently index stood at 41069 points posting a positive return of 1% since start of CY20. The traded volumes remained elevated over the period and remained at an average of ~203mln (SPLY: ~99mln) despite large market swings. Going forward, the index is expected to recover with the COVID-19 vaccines expected to roll out in the coming months. Concern over pandemic is likely to reduce while improvement in economic activity is likely to accelerate globally as well as locally in medium term. Given the operating environment, players with efficient and variable cost structures focusing on high margin business and diversification in revenue streams are expected to fare better vis-à-vis peers. Furthermore, high traded volumes would bode well for brokerage firms.

Business Profile Primary activities of the Company includes equity brokerage and research. In terms of value of traded shares, the Company enjoys ~3% market share.

Revenue And Profitability Analysis The major source of revenue of the Company stemmed from equity brokerage. Equity brokerage revenue increased by 83% to ~PKR 128mln(9MCY19: ~PKR 70mln) which makes ~80% of the total revenue. The Company's topline has shown recovery from the preceding year corresponding with the elevated traded volumes on stock exchange. The Company earned profit after tax amounting to ~PKR 0.49mln (SPLY: ~PKR 56.6mln loss). Operating expenses however followed the downtrend and slightly decreased by ~3.1% (9MCY20: PKR 118mln, 9MCY19 PKR 122mln) mainly due to decrease in salaries and rent & rates. Operating revenues successfully covered the operating expenses.

Financial Sustainability

Credit Risk EFG Hermes Pakistan has due diligence procedures in addition to its KYC, for the assessment of its client creditworthiness. The board has approved per party and per scrip limits, which are strictly adhered to by the management which minimizes the credit risk.

Market Risk In line with the EFG group's policy, the Company does not engage in proprietary trading thus limiting the market risk exposure. Funds have been deployed in government securities and shares of PSX as per the requirement of Stock Exchanges (Corporatization, Demutualization and Integration) Act 2012.

Liquidity Profile The trade related assets are 0.65x of the trade related liabilities as at end Sep'20 (CY19: ~1.67x). The Company retains the ability to borrow funds in the short term and liquidate investments in the financial assets if the need arises.

Financial Risk The Company has availed long-term loan of ~PKR 375mln which is secured against the unconditional and irrevocable financial guarantee by the parent company. The Company's debt to equity ratio clocked in at ~273% (CY19: ~287%) whereas, FCFO of the Company stood at ~PKR 41mln (CY19: ~PKR 1mln negative) due to which its coverage ratios are not satisfactory. The net capital balance of the Company is ~PKR 370mln as at Sep'20 (CY19: ~PKR 368mln). The Company can take exposure up to 25 times of its NCB.



PKR mln

EFG Hermes Pakistan Ltd.
Listed Public Limited

Sep-20	Jun-20	Mar-20	Dec-19	Sep-19	Jun-19	Dec-18	Dec-17
9M	6M	3M	12M	9M	6M	12M	12M

A BALANCE SHEET

1 Finances	19	6	44	15	31	26	96	180
2 Investments	422	411	433	401	392	402	321	247
3 Other Earning Assets	12	11	12	11	12	11	12	12
4 Non-Earning Assets	345	270	260	334	216	216	548	381
5 Non-Performing Finances-net	-	-	-	-	-	-	-	-
Total Assets	798	698	749	762	650	656	977	820
6 Funding	526	482	485	530	460	517	735	540
7 Other Liabilities (Non-Interest Bearing)	135	93	139	101	75	-	62	40
Total Liabilities	660	575	624	631	535	517	797	580
Equity	138	123	125	131	115	139	180	240

B INCOME STATEMENT

1 Fee Based Income	131	83	50	123	76	43	134	77
2 Operating Expenses	(118)	(81)	(46)	(167)	(122)	(78)	(171)	(80)
3 Non Fee Based Income	32	26	16	51	35	20	36	17
Total Operating Income/(Loss)	45	28	20	8	(11)	(15)	(2)	13
4 Financial Charges	(30)	(22)	(13)	(45)	(29)	(21)	(29)	(16)
Pre-Tax Profit	15	6	6	(37)	(40)	(35)	(31)	(3)
5 Taxes	(12)	(7)	(5)	(11)	(11)	(6)	(15)	(8)
Profit After Tax	3	(1)	2	(48)	(51)	(41)	(46)	(11)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	66.7%	77.9%	68.2%	571.7%	-264.6%	-140.3%	-1922.5%	121.7%
Return on Equity (ROE)	4.1%	-2.4%	6.5%	-45.3%	-69.0%	-69.0%	-34.9%	-5.5%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	17.2%	17.6%	16.7%	17.1%	17.7%	21.2%	18.4%	29.3%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current M	-137.9%	-112.6%	-130.4%	1.5%	68.3%	107.6%	59.6%	-5.7%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	73.3%	73.7%	74.8%	66.0%	70.0%	71.4%	41.1%	48.0%
Liquid Assets / Trade Related Liabilities	387.9%	493.6%	509.3%	609.0%	540.9%	332.2%	576.8%	587.7%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers	13.4%	15.0%	18.2%	13.9%	10.3%	6.4%	3.2%	32.2%
Equity Instruments / Investments	8.2%	5.8%	4.8%	7.0%	5.5%	7.2%	9.3%	17.8%

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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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.
- (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 | 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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