



The Pakistan Credit Rating Agency Limited

Rating Report

Arif Habib Limited | BMR

Report Contents

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

Rating History

Table with 6 columns: Dissemination Date, Long Term Rating, Short Term Rating, Outlook, Action, Rating Watch. Rows show historical ratings from 2018 to 2023, all maintaining a BMR1 rating with a 'Stable' outlook.

Rating Rationale and Key Rating Drivers

Arif Habib Limited ('AHL' or the 'Company') primarily provides equity brokerage and advisory services. FY23 experienced low market volumes and limited investor interest, impacting the brokerage industry's revenue; however, since the start of FY24, the market volumes have picked up and investor interest has managed to push the index to historic highs. Market volumes growth trend appears to be ongoing, resulting in positive market indicators for FY24. The rating incorporates the Company's association with astute sponsors, 'Arif Habib Group'. AHL has a robust governance framework backed by a board of 7 members including 4 non-executive and two independent directors. The management team comprises seasoned professionals with proper departmentalization and defined roles. AHL has an in-house internal audit department which directly reports to the Audit Committee. Internal audits are also performed at the group level which further ensures rigorous internal controls. Moreover, separate departments are in place to oversee the risk management and compliance function. AHL has developed and implemented comprehensive guidelines and policies across the Company. The Company has established rigorous protocols regarding risk assessment by implementing KYC, CDD, AML and CFT. During FY23, the equity brokerage revenue stood at ~PKR 471mln depicting a decline of ~9% (SPLY: ~PKR 517mln). Despite the subdued market conditions in FY23, AHL managed to achieve a profit of ~PKR 181 million during the period. Whereas, in 1QFY24 the brokerage revenue was reported at ~PKR 143mln, (SPLY: ~PKR106mln). However, the Company managed to outperform the market during 1QFY24 by growing its topline by ~35% as compared with market volume growth of ~31%, resulting in improved market share of the Company. As a result, AHL reported a profit after tax of ~PKR 151mln during 1QFY24. The Company consistently introduces innovative products and services for its customers, thereby sustaining and enhancing its market share over the years. The Company has a strong equity base of ~PKR 5,145mln at end-Sep'23.

Moving forward, it is imperative from a ratings perspective to maintain topline growth, revenue diversification, and profitability. Moreover, retention of key management personnel and further separation of management roles remain critical.

Disclosure

Table with 2 columns: Field Name, Value. Fields include Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, and Rating Analysts.



Ownership

Ownership Structure Arif Habib Corporation Limited (AHCL) is the major shareholder of Arif Habib with 73% equity stake while the general public (local & foreign) holds 27% of the shares.

Stability The Arif Habib Group (AHG) ranks amongst the fastest growing multi-sector group in Pakistan. It has strong ability in identifying and developing successful enterprises.

Business Acumen Arif Habib Group holds interest in securities brokerage, investment and financial advisory, private equity, investment management, fertilizer, cement, steel, real estate, and energy sectors. Mr. Arif Habib holds vast experience in diverse sectors. Under his leadership, Arif Habib Corporation Limited (AHCL) won several prestigious national and regional awards in recognition of its remarkable financial performance and sound corporate governance practices.

Financial Strength The un-consolidated loss after tax of the Arif Habib Corporation Limited was reported at ~PKR 843mln for 1QFY24 while the equity increased from ~PKR 20bln in 1QFY23 to ~PKR 21bln in 1QFY24.

Governance

Board Structure The Company has seven directors on the Board including CEO and the Chairman. There are four non-executive directors, two independent directors and one executive. The presence of independent directors strengthens the Company's profile from the rating perspective. Additionally, the Board comprises five male and two female directors.

Members' Profile Mr. Zafar Alam, the Chairman possesses over 32 years of experience in investment banking. Overall, the board possesses the necessary skills and experience required for capital markets.

Board Effectiveness There are three board committees in place – (i) Audit Committee (ii) Risk & Compliance Committee (iii) HR & Remuneration Committee. The board held four meetings during the period, which were attended by the majority of the members.

Financial Transparency The external auditors of the Company are Rahman Sarfaraz Rahim Iqbal Rafiq, who have expressed an unqualified opinion on the financial statements for FY23. The firm is in the A Category of SBP's panel of auditors.

Management

Management Team The Company has a team of seasoned professionals headed by Mr. Shahid Ali Habib, the CEO. Mr. Shahid Ali Habib brings over 24 years of experience in the fields of Securities Brokerage, Banking, Asset Management, and Investment Banking. Mr. Taha Siddiqui (CFO) is an ACCA member and has diversified experience in the fields of Financial, Manufacturing, Trading, and Services industries. The management staff turnover is low, reflecting stability in human resource management.

Organizational Structure Arif Habib has a multi-tier functional organization structure, consisting of the following departments, i) Finance, ii) Risk management & compliance, iii) IT, iv) Equity operations, v) Research, vi) International sales, vii) Online trading. The heads of the aforementioned departments report directly to the CEO. There is an independent Internal Audit Department reportable to Audit Committee.

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

Complaint Management A robust complaint management system has been established. Complaints can be made via email, SMS, and calls. Direct links for PSX and SECP are also available on the website to lodge complaints. The complaint resolution process is monitored weekly by the Company's Compliance Department.

Extent Of Automation / Integration Two database platforms are installed with full integration between the back and front office.

Continuity Of Operations AHL has a detailed disaster recovery plan to ensure business continuity at the time of disaster. Moreover, backups are maintained on daily basis. Daily backup of critical files of the Research Department, Corporate Finance Department and Settlement Department is obtained and stored at File/Date Server.

Risk Management Framework The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The audit committee is responsible for monitoring the areas that are deemed risky by the management and internal or external auditors, as well as implementing the mandatory controls required to mitigate such risks. The Company has a coherent and effective risk management framework that allows it to efficiently manage exposure to risk.

Regulatory Compliance The Risk Management & Compliance Department ensures regular monitoring of controls and systems, therefore ascertaining that all functions are in line with the applicable policies and procedures.

Business Sustainability

Business Risk FY23 has been a challenging year for the brokerage industry. High political uncertainty along with high inflation crippled the economic condition of the country. Market volumes remained subdued as investors opted for the safer fixed market returns resulting from the high-interest rates prevailing in the economy. However, the start of FY24 has seen a recovery in the confidence of investors. The resumption of the IMF program and the recent steps taken by the government to address longstanding economic issues such as the reduction of circular debt has boosted the market volumes. That being said, political turmoil still prevails in the country and many investors are still waiting for the conclusion of the election process before showing their hands.

Business Profile AHL has a diversified revenue stream. The Company's branch network is expanding. It has a good mix of foreign, local institutions and high-net-worth individual clients. The retail side of the Company has also established and penetrated the market. Historically, the Company has had a distinct edge over its competitors by having a strong foothold in investment banking and advisory business. One of the revenue streams of the Company pertains to proprietary investments, which make the Company largely exposed to market risk.

Revenue And Profitability Analysis During FY23, the equity brokerage revenue stood at ~PKR 471mln depicting a decline of ~9% (SPLY: ~PKR 517mln). Whereas, in 1QFY24 the equity brokerage revenue was reported at ~PKR 143mln, (SPLY: ~PKR106mln). The market volumes decreased by ~33% in FY23 when compared with FY22, whereas the revenue of AHL decreased by ~9% during the same period indicating a better performance than the market. During 1QFY24, earned a net profit of ~PKR 151mln (SPLY: ~PKR 77mln). This profit is on account of increased revenue from equity brokerage and gain on remeasurement of investments.

Financial Sustainability

Credit Risk The Company has developed enhanced due diligence procedures in addition to its KYC for the assessment of client creditworthiness. Applicable policies for leveraged products have been adopted and limits have been defined, which are strictly monitored. Moreover, the Company is equipped with a comprehensive credit risk assessment policy. The policy defines trading limits for different categories of clients and these limits are regularly monitored to avoid any breach.

Market Risk The Company maintains proprietary and investment books in different asset classes. AHL maintains a significant proprietary book amounting to ~PKR 2,849mln at end-Jun'23 and its stood at ~PKR 3149mln at end-Sep'23. A dedicated team (including the CEO) efficiently manages the investments according to the Company's investment policy. Additionally, the Company has a firm commitment from its Sponsor to buy back strategic investment from the short-term portfolio at a time of liquidity needs. The investment book has the risk of conflict of interest, though measures have been taken to mitigate it.

Liquidity Profile AHL has a strong liquidity profile. The Company's current assets were reported at ~PKR 7,185mln as compared to the current liabilities of ~PKR 4,171mln at end-Sep'23. The Company has put in place a rigorous liquidity management policy that defines limits of borrowings in order to prudently manage the liquidity needs of the Company.

Financial Risk Arif Habib finances its investments through short-term debt and internally generated cash flows. The Company has a strong equity base of ~PKR 5,145mln at end-Sep'23, increasing from ~PKR 4,994mln at end-Jun'23 (SPLY: ~PKR 5,201mln).



PKR mln

Arif Habib Limited
Public listed Company

Sep-23	Jun-23	Jun-22	Jun-21
3M	12M	12M	12M

A BALANCE SHEET

1 Finances	290.95	127	437	253
2 Investments	4,810	4,386	7,054	4,879
3 Other Earning Assets	250	215	190	1,274
4 Non-Earning Assets	4,040	3,059	1,314	2,065
5 Non-Performing Finances-net	0	0	0	0
Total Assets	9,390	7,787	8,995	8,471
6 Funding	2,619	1,619	1,636	1,373
7 Other Liabilities (Non-Interest Bearing)	1,612	1,160	2,149	2,103
Total Liabilities	4,231	2,779	3,784	3,476
Equity	5,159	5,008	5,202	4,995

B INCOME STATEMENT

1 Fee Based Income	178	1,128	938	1,397
2 Operating Expenses	-150	-672	-591	-656
3 Non Fee Based Income	286	530	820	1,784
Total Operating Income/(Loss)	314	986	1,167	2,525
4 Financial Charges	-123	-638	-197	-132
Pre-Tax Profit	191	348	970	2,393
5 Taxes	-40	-168	-144	-309
Profit After Tax	151	180	827	2,084

C RATIO ANALYSIS

1 Cost Structure				
Financial Charges / Total Operating Income/(Loss)	39.1%	64.7%	16.9%	5.2%
Return on Equity (ROE)	33.3%	4.9%	30.7%	104.5%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	54.9%	64.3%	57.8%	59.0%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	35.0%	35.4%	166.5%	1715.2%
3 Liquidity				
Liquid Assets / Total Assets (D+E+F)	50.6%	50.9%	60.2%	53.9%
Liquid Assets / Trade Related Liabilities	434.2%	452.1%	569.1%	283.6%
4 Credit & Market Risk				
Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Equity Instruments / Investments	15.7%	10.4%	6.4%	8.1%
	64.0%	63.0%	60.3%	53.3%

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>
---	---	--	---	---

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.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent