



The Pakistan Credit Rating Agency Limited

Rating Report

AL Habib Asset Management Limited (Formerly: Habib Asset Management Limited)

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Aug-2022	AM2+	-	Stable	Upgrade	-
15-Sep-2021	AM2	-	Stable	Maintain	-
15-Sep-2020	AM2	-	Stable	Maintain	-
26-Jun-2020	AM2	-	Stable	Upgrade	-
26-Dec-2019	AM3+	-	Stable	Maintain	-
27-Jun-2019	AM3+	-	Stable	Maintain	-
28-Dec-2018	AM3+	-	Stable	Maintain	-
30-Jun-2018	AM3+	-	Stable	Maintain	-
22-Dec-2017	AM3+	-	Stable	Maintain	-
15-May-2017	AM3+	-	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The rating reflects AL Habib Asset Management Limited's ("AHAML" or the "Company") elevating market position in the domestic AMC industry, supported by i) structural investment process, ii) sound governance structure and iii) experienced and qualified management. The rating incorporates the Company's association with a well-established bank which is one of the dominant players in banking sector. Since Jun'21, the overall industry has shown a significant growth by 19%, while AHAML leaped ahead the industry and has shown growth by ~51% while the market share of the company has increased to 4.0% as at end Jun'22. The company is following a risk averse approach to generate revenues. Hence, the AUMs concentration tilted towards money market funds with fund size of PKR ~33bln contributing 66% of total AUMs. The Company is benefiting from access to large branch network of Bank AL Habib with its strong brand name and is penetrating its footprints on the retail side. The current retail and institution mix is 25:75 which is in line with the peers universe. Furthermore, the company also synergizes its research function with the bank. The overall fund performance remained above the benchmarks and industry averages. The Equity funds of AHAML have beaten entire market by performing better than industry average. On technological side, to improve investor's reporting the company is in process to launch it's mobile app soon.

On financial profile, the core-income has shown an increase of 40.8% and stood at PKR 116mln at end 1HCY22 (1HCY21: PKR 82.6mln). The increase in-core income is due to management fees from money market categories. The Company reported net profit of PKR 48.7mln during 1HCY22 (1HCY21 : PKR 39.5mln). The Company's equity stood at PKR 812mln at end Jun'22 (Jun'21: PKR 763.5mln), comfortably meeting the minimum regulatory capital requirement of PKR capital 230mln.

Going forward, growing AUMs, sustainable market share and augmenting equity through internally generated funds would remain imperative to the assigned rating. Diversification of the fund slate and maintaining strong fund performance will be critical. Strengthening systems and adhering to robust investment process is important.

Disclosure

Name of Rated Entity	AL Habib Asset Management Limited (Formerly: Habib Asset Management Limited)
Type of Relationship	Solicited
Purpose of the Rating	Asset Manager Rating
Applicable Criteria	Assessment Framework Asset Manager Rating(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Asset Managers(Jun-22)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Profile

Structure AL Habib Asset Management Limited ("AHAML" or the "Company"), was incorporated in September 2005, as a public unlisted company.

Background The Company is financial arm of Bank AL Habib Limited (AAA rated bank) and Habib Group.

Market Share AL Habib Asset Management Limited has a modest but growing standing in the Asset Management industry. The Company's market share has increased to 4.0% at end Jun'22 (SPLY: 3.1%).

Diversification Of Fund Mix The Company is currently managing a product slate of Nine open-end funds in multiple categories. The Company has also launched pension fund to enhance the fund slate and increase product diversification.

Investor Concentration At end Jun'22, the average top 10 investors concentration remains high at 60%. While the average related party holdings were 71%.

Ownership

Ownership Structure The Company is wholly owned subsidiary of the Bank AL Habib Limited.

Business Acumen The Company's sponsor, Bank AL Habib, is one of the prominent banks in the conventional banking sector. The Bank has a widespread network of more than 1000+ branches all across Pakistan. The strong presence of sponsors in the financial sector will be beneficial for the Company.

Financial Strength Bank AL Habib has long term rating of AAA and short term rating of A1+. The reported equity of the Bank was PKR 85.7bln with PAT of PKR ~5bln at end Mar'22. The Bank has already injected additional capital and has a very strong capacity to provide further support if needed.

Governance

Board Structure Currently, the Board of Directors comprises six members including the CEO. Three non-executive, two independent, and one executive director make up the board.

Members' Profile Mr. Abbas D. Habib is the chairman of the board, also the chairman of Bank AL Habib Limited, he is a Fellow Member of the Institute of Bankers Pakistan, having a rich experience of over 40 years in commerce, industry and banking in local and international environment. Overall, the board has a mix of local and foreign banking industry and financial services expert.

Board Effectiveness The board actively provides guidance and has setup audit and HR committees to help the Company in smooth operations and keeping check on relevant activities.

Transparency The external auditor of the the Company is M/S EY Ford Rhodes, which falls under 'A' category of SBP panel of auditors.

Management

Organizational Structure The Company has a well-designed and formalized organizational structure. It operates through five main departments, all directly reporting to the CEO. The management intends to streamline the organizational structure to maximize efficiencies.

Management Team The CEO, Mr. Kashif Rafi, holds an MBA in Finance from IBA and has established track record in the AMC industry spanning over 20 years senior level positions in top AMCs. The COO, Mr. Zahid Hussain Vasnani, is a Professional Accounting Affiliate from ICAP. He has vast experience in financial services and capital markets. They are supported by a qualified and experienced team.

Technology Infrastructure The Company has procured Asset Connect, a widely used IT system in the asset management industry. The software is integrated and comprises basic modules: (1) Unit Holder Module, (2) Portfolio Module, and (3) General Ledger (GL) Module.

Control Environment The Company has devised detailed policies for IT, operations, research and risk management. The Company uses excel based models to monitor the exposure limits and margins.

Investment Risk Management

Credit Risk To monitor credit risk, internal assessment modules are in place with a combination of qualitative and quantitative analysis. Excel based credit risk score-cards are being used to provide statistical estimates for counter party credit risk.

Liquidity Profile The risk management department monitors the liquidity profile of the Company. Sufficient liquidity is maintained by investing a significant portion of funds in liquid avenues.

Market Risk The Company has set appropriate metrics to measure exposure to market risk factors. Excel-based financial models are being used to measure the sensitivity of the portfolio instruments due to movements in interest rates. The exposure limits applicable to interest-bearing securities are regularly reviewed and reported to the management

Portfolio Management

IC Composition The Company's investment committee comprises of five members including the CEO, COO, Risk Officer and two Fund Managers

Effectiveness The IC formally meets on fortnightly basis in order to take investment decisions. The composition and performance of the IC is considered adequate. Further strengthening of investment process for consistent fund performance is important.

Investment Research And Analysis The research department of the Company only comprises of the Research Officer. The research function is presided by the CEO. The department uses excel based models for equity valuation. Fortifying research function, in line with peers, for larger coverage will bode well for the Company. Furthermore, the Bank's research synergies have also been used for market analysis.

Customer Relationship

Investor Services The Company is providing sound services to its clients. For the ease of investors, the Company has introduced an online chat facility where the investors can ask investment related questions, seek guidance and make a complaint. The Company has launched an online redemption module to facilitate its customers in making online transactions. Currently, AL Habib Asset Management Limited does not have a mobile app facility. However, the Company is in the process to launch it soon.

Investor Reporting The AMC publishes FMRs on its website in a timely manner. The website is also used as a reporting platform for dissemination of information pertaining to the Company, its management, NAV history, fund performance, product characteristics and other important announcements.

Distribution And Sales Network The Company has a modest distribution and sales network. The Company plans to leverage Bank AL Habib's vast branch network to increase its outreach. Effective utilization of this platform for visibility and AUM growth will determine the Company's ability to increase its market share.

Performance

Asset Under Management AL Habib Asset Management Limited's AUM's significantly increased by 51% to PKR 50bln at end Jun'22 (SPLY: PKR 33bln). This growth is predominantly driven by both conventional and Islamic money market categories. Diversifying fund slate to reduce dependence on single fund will be critical, although VPS fund has also been launched on 30-Jun'22. The majority of the funds performed better than the benchmarks and industry averages. The Equity funds of AHAML have beaten entire market by performing better than industry average.

Asset Manager The core income has shown an increase of 40.8% and was recorded at PKR 116mln during 1HCY22 (1HCY21: PKR 82.6mln). The Company reported net profit of PKR 48.7mln in 1HCY22 (1HCY21 : PKR 39.5mln). The Company's equity stood at PKR 812mln at end Jun'22 (Jun'21: PKR 763.5mln), comfortably meeting the minimum regulatory capital requirement of capital PKR 230mln.

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 surveill 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

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- 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 | Clause 11-(A)(p).
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- (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)
- (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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