



The Pakistan Credit Rating Agency Limited

Rating Report

Abbasi and Company (Pvt.) Limited | BFR

Report Contents

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

Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
25-Jun-2021	BFR 2	Stable	Initial	-

Rating Rationale	Factor	Comment
	Factor Ownership	ACPL is family owned business where shareholding is primarily vested with Mr. Muhammad Ismail Abbasi (69.7%).
	Governance	BoD comprises professionals having experience in the financial services; however, room for improvement exists for independent insight.
	Management and Client Services	ACPL has well developed organizational structure with qualified and experienced management team. ACPL has fully integrated database modules and clients are provided with a complete range of services.
	Internal Controls and Regulatory Compliance	Internal audit is outsourced which strengthens the control environment. Policies exist to manage liquidity, market and other operational risks.
	Business Sustainability	ACPL's average market share during FY20 stood at ~2%. Brokerage income increased by ~16% in FY20, but lack of diversification in top line revenue constraints the rating.
	Financial Sustainability	Due to zero leverage, capitalization indicators are considered sound. The Company is running proprietary book hence, exposed to market risk.

Key Rating Drivers

The assigned rating of Abbasi and Company (Pvt.) Limited or "the Company" incorporates the Company's low leveraged capital structure, seasoned management team, strong internal control framework, satisfactory risk management and compliance with regulatory affairs. However, the rating is constrained by governance framework of the Company which needs improvement. The rating is dependent on maintaining the market share, low leverage metrics, retention of key management, sustainable operating profitability and efficient implementation of planned business strategy.

Disclosure

Name of Rated Entity	Abbasi and Company (Pvt.) Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology BFR (Jan-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504

Profile

Background: Abbasi and Company (Pvt) Limited, “ACPL or The Company” was incorporated under the Companies Ordinance 1984 in 1999 as a private limited company. ACPL is a licensed TRE certificate holder of Pakistan Stock Exchange and a Universal Member of Pakistan Mercantile Exchange Limited. ACPL is a Corporate Member of the Pakistan Stock Exchange and registered with the SECP. In 2017, the Company became a registered research entity.

Operations: ACPL’s service offering includes Economic and Investment Research, Equity Brokerage and Commodity Brokerage. The clientele of the Company is segmented into three categories i) individuals ii) financial institutions iii) Retail.

Ownership

Ownership Structure: ACPL is primarily owned by individuals and it is not part of any foreign or local group. The majority shares are owned by Mr. Syed Muhammad Ismail Abbasi who owns 69.7% of the ownership. The second highest ownership belongs to Ms. Yasmeen Ismail who owns 12.9% of the total shares.

Stability: A formally written shareholding agreement and succession plan exist.

Business Acumen: The CEO, Mr. Syed Muhammad Ismail Abbasi possess diversified experience in capital markets. He is serving on the Board of Directors of ACPL as a Chief Executive since its incorporation. He is also serving as chairperson of the Board. He holds a Master’s Degree with distinction in Commerce from The University of Punjab and with over 35 years of experience in Pakistan’s financial markets.

Financial Strength: The sponsors have sizeable net worth and may inject capital in the Company with increasing quantum of operations. This also shows the sponsors commitment in case financial need arises.

Governance

Board Structure: ACPL has appointed three directors on board according to the requirements of Companies Act 2017. However, the presence of Independent and Non-Executive directors would be an encouraging factor.

Members’ Profile: The board possess the necessary skills and experience required for capital markets. The board members, on-average, possess more than ~20 years of experience in the field of finance and capital markets.

Board Effectiveness: To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee, HR Committee and Executive Risk Management Committee. The Audit Committee conducts meetings at minimum of once every quarter and the internal auditor reports are presented along with the findings.

Transparency: The external auditors of the Company are M/s Parker Randall – A.J.S and Company Chartered Accountants which have satisfactory QCR rating from the Institute of Chartered Accountants of Pakistan. The auditors of the Company are classified in the ‘B’ category of State Bank of Pakistan panel of Auditors.

Management and Client Services

Organizational Structure: The Company has well developed organizational structure. The Company operates through ten departments namely i) Operations ii) Equity iii) Transaction iv) Accounts & Finance v) Research vi) IT vii) Business Support and Service viii) Human Resource ix) Compliance and x) Business Development. All of the departmental heads directly report to the CEO. However, Head of Internal Audit reports to the Board Audit Committee.

Management Team: The management of ACPL is well qualified and experienced to manage the Company’s operations efficiently. The CFO Mr. Qamar Tariq is IFMP member and a Certified Anti Money Laundering Professional. He is overseeing the financial operations for more than 10 years.

Client Servicing: The Company has provided its customers with various channels, including a mobile app and online trading platform to facilitate them for execution and monitoring of their transactions.

Internal Controls and Regulatory Compliance

Complaint Management: A complaint box has been placed in the office premise, with bold writing "Complaint Box". Complain can also reach company through call, email, website and by post. A designated officer has been assigned the responsibility of handling and rectification of complains.

Extent of Automation / Integration: Two database platforms are installed with full integration between back and front office. The system incorporates primary and secondary level protection. ACPL is in usual practice of daily and weekly backups.

Continuity of Operations: ACPL has established a recovery plan for all essential infrastructure elements, systems, networks, and key business activities. The Company has assessed the possibility of potential disaster or emergency and has defined a range of parameters to cater these risks.

Business Sustainability

Operating Environment: The index initiated FY21 from 34,442 points and currently clocked in at 47,987 points posting a positive return of 39%. The traded volumes during 9MFY21 remained elevated over the period at an average of ~269mln shares (SPLY: ~134mln. Shares), depicting increased participation in the equity market led by country's economic rebound and the global COVID-19 vaccine rollout. Foreigners continued to be net sellers and offloaded ~USD 269mln worth of stocks during FY21 period. Going forward, after the global sell off in equities due to the pandemic, it is expected that the foreigners will rebuild their long positions in the months ahead.

Performance: The Company's operating revenue mainly concentrated to equity brokerage. During 1HFY21 the equity brokerage revenue contributed ~85% to the total revenue. The Company reported net profit of PKR ~13mln in 1HFY21 compared to a loss of ~PKR 9mln in FY20.

Strategy: The management is considering to diversify its presence in the north to capture the untapped market. A new branch opening in Lahore and subsequently in Karachi is also under review. The research department is also under expansion, additional resources will be hired this year. The Company also has a long-term plan to initiate a corporate finance and investment advisory department.

Financial Sustainability

Credit Risk: For the assessment of client's credit worthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. The Company has also put in place different risk mitigation measures to determine the scope of the identification and verification requirements and ongoing monitoring based on the risks posed by particular customers by setting transaction limits for higher-risk Customers.

Market Risk: ACPL has maintained proprietary portfolio but the quantum of short-term investment is very minimal. The Company has formalized a proprietary trading policy whereby limits have been defined to mitigate the risks, the compliance department will monitor the limits consistently and any breaches will be reported to the senior management.

Liquidity Risk: The liquidity profile of ACPL is adequate. The Company reported current assets of ~PKR 477mln for 1HFY21 as compared to current liabilities of ~PKR 275mln.

Capitalization: At end 1HFY21, the Net Capital Balance (NCB) of the Company stood at ~PKR 141mln. The Company has an equity base of ~PKR 437mln. ACPL may have Assets Under Custody of up to 25 times of net worth.

	PKR mln			
	Dec-20	Jun-20	Jun-19	Jun-18
	6M	12M	12M	12M

Abbasi and Company (Pvt.) Limited Private Limited

A BALANCE SHEET

- 1 Finances
- 2 Investments
- 3 Other Earning Assets
- 4 Non-Earning Assets
- 5 Non-Performing Finances-net
- Total Assets**
- 6 Funding
- 7 Other Liabilities (Non-Interest Bearing)
- Total Liabilities**
- Equity**

-	-	-	-
72	53	43	71
27	34	54	28
613	606	506	505
-	-	-	-
712	693	603	604
255	265	181	155
20	4	7	10
275	269	188	165
437	423	414	439

B INCOME STATEMENT

- 1 Fee Based Income
- 2 Operating Expenses
- 3 Non Fee Based Income
- Total Opearting Income/(Loss)**
- 4 Financial Charges
- Pre-Tax Profit**
- 5 Taxes
- Profit After Tax**

38	52	45	52
(39)	(67)	(65)	(64)
16	8	(7)	5
15	(7)	(28)	(7)
(0)	(0)	(0)	(0)
15	(8)	(28)	(7)
(2)	(1)	3	0
13	(9)	(25)	(7)

C RATIO ANALYSIS

1 Business Sustainability

- Pre Tax Margin
- EBITDA/ Revenue
- Profit / (Loss) Before Interest & Taxes / Total Assets

39.5%	-14.6%	-62.7%	-13.2%
49.8%	2.4%	-40.2%	8.1%
2.1%	-1.1%	-4.6%	-1.1%

2 Financial Sustainability

- Total Investments / Equity
- NCB / Equity
- LCB/ Total Equity
- (Cash & Cash Equivalents + Government Securities) / Total Assets
- Total Debt / Equity

16.4%	12.6%	10.3%	16.2%
32.3%	30.1%	18.8%	30.1%
32.5%	30.1%	24.6%	34.5%
60.6%	61.8%	56.6%	50.9%
0.0%	0.0%	0.0%	0.0%

Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management, client services and sustainability of operations

Scale	Definition
BFR 1	Very Strong. Very strong quality of management, client services and very high likelihood of sustaining operations
BFR 2++	
BFR 2+	Strong. Strong quality of management, client services and high likelihood of sustaining operations
BFR 2	
BFR 3++	
BFR 3+	Good. Good quality of management, client services and above average likelihood of sustaining operations
BFR 3	
BFR 4++	
BFR 4+	Adequate. Adequate quality of management, client services and average likelihood of sustaining operations
BFR 4	
BFR 5	Weak. Weak quality of management, client services weak likelihood of sustaining operations
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.

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.

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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 principle 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)

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