



The Pakistan Credit Rating Agency Limited

Rating Report

ABL Asset Management Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Oct-2022	AM1	-	Stable	Upgrade	-
26-Oct-2021	AM2++	-	Positive	Initial	-

Rating Rationale and Key Rating Drivers

The rating upgrade of ABL Asset Management Company Limited ("ABL AMC" or the "Company") incorporates the Company's i) elevating market positioning, ii) improved fund's performance, iii) digital penetration and iv) strong equity profile. The association of the Company with a well-established bank, which is one of the dominant players in the banking sector, bodes well for the ratings. Since Jun'21, the overall industry has shown growth by ~16%, while the AMC has slightly leaped ahead with the industry and has shown a growth of ~21%. Since 2017, the AMC has managed significantly to increase its AUMs base by almost 2.2x, while market share has increased to ~8% at the end Aug'22. Considering the high-interest rate environment, the AUMs base of the AMC is tilted more towards the money market and income category, constituting ~80% of total AUMs, in line with the industry. The investor's concentration at the AMC level is comfortably low at 43%. The Fund slate of the AMC is well diversified however, the AMC has plans to launch further funds in near future. During FY22, the majority of the funds featured in the first and second quartiles. The Company has an adequate retail customer base, while the management is aggressively focusing on strengthening its digital platforms for better retail penetration, distribution network, and customer services along with establishing its dedicated Saving Centers. Continued focus on retail expansion and enhanced delivery channels is also taken into consideration. The rating of the Company also takes into account an experienced management team, sound governance framework and adequate investment decision making process. The ABL AMC has a well-established risk management framework and compliance protocols. Materialization of digital initiatives in terms of enhanced retail growth and market share is critical. In order to strengthen its product slate, the Company is also operating under advisory services with a healthy SMA portfolio.

On financial profile side, during 1HCY22, the Company suffered unrealized losses from investments in Equity funds, which is in line with current market trend. Despite unrealized losses, the Company enjoys sound liquidity and has sufficient equity base of PKR 2.9bln as of Jun'22, which is well above the peers universe.

The rating is dependent on the management's ability to effectively execute business development plans and leveraging its digital initiatives to strengthen its operations and outreach. Sustaining consistency in terms of fund's performance to remain in top quartile, and regaining of profitability would remain imperative. The retention of key management personnel, sound corporate governance and further strengthening investment process remains key rating factors.

Disclosure

Name of Rated Entity	ABL Asset Management Company 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 ABL Asset Management Company Limited ("ABL AMC" or the "Company") was incorporated in October 2007 as an unlisted public limited company.

Background The Company is registered as an Asset Management Company and Investment adviser under the Non-Banking Finance Companies Regulations by the Securities and Exchange Commission of Pakistan. The head office of the Company is situated in Lahore.

Market Share As per management representation, total the AUMs have shown growth of 46% since Jun'21 reaching a market share of around ~9.0% in Oct'22.

Diversification Of Fund Mix ABL AMC offers investment solutions for both conventional and Islamic markets. At end of Oct'22, ABL AMC's total open-end funds were 23 and as an investment advisor, ABL AMC manages 45 clients with a good portfolio. Stickiness of since long add value to the quality in customer service. Stickiness of discretionary portfolio clients add value to the quality in customer services.

Investor Concentration The top 10 investor concentration stood at 43% at end Jun'22 and the average related party holding represents 6.6% of total AUMs

Ownership

Ownership Structure Allied Bank Limited holds 100% of the ownership stake in ABL Asset Management Company Limited. The bank incorporated as a public limited company, commenced operations as a Scheduled Commercial Bank in 1942 and was re-capitalized under a scheme of reconstruction by State Bank of Pakistan in 2004 with being renamed in 2005. The bank has the sixth position in terms of deposit market share among large banks of Pakistan.

Business Acumen With strong customer base of PKR 1,575bn at end Jun'22, the bank holds strong position among peers. It offers universal banking services, while placing major emphasis on retail banking. The bank has a large network of 1400 plus branches including 117 Islamic branches and 2 overseas branches.

Financial Strength The bank is AAA/A+ rated by PACRA. Its head office is located in Lahore. ABL bank, with its existence of over 75 years, has built itself a foundation with strong equity, asset and deposit base.

Governance

Board Structure Company's Board consists of 08 members, including the CEO. The Board comprises 02 independent, 05 non-executive directors.

Members' Profile The Chairperson, Mr. Sheikh Mukhtar Ahmed is a seasoned professional. He has over 56 years of experience in establishing and successfully managing various industrial and financial companies. He has been on the Board of Directors of Allied Bank Limited since 2005 and is a "Certified Director" from Pakistan Institute of Corporate Governance.

Board Effectiveness There are four committees: 1) Planning and Monitoring Committee, 2) Risk Management Committee, 3) Human Resource Committee and 4) Audit Committee.

Transparency The external auditors of the Company are EY Ford Rhodes Chartered Accountants, which falls under category "A" under the SBP panel.

Management

Organizational Structure The Company operates through seven main departments. (i) Finance, (ii) compliance, (iii) IT, (iv) Business Development, (v) Customer and training, (vi) Risk management and (vii) Internal Audit. Finance, compliance, IT, business development, customer and training, and risk management directly report to the CEO, whereas Internal Audit department directly reports to BOD. The CFO and Company's secretary reports to the Board.

Management Team The senior management team of the Company comprises qualified and experienced professionals. The CEO - Mr. Alee Khalid Ghaznavi is a seasoned professional. He has a vast experience of sixteen years with leading financial institutions including Allied Bank limited, Habib Bank AG Zurich and National of Bank of Pakistan Limited in the area of Corporate and Investment banking.

Technology Infrastructure Comprehensive MIS reports are generated on daily, weekly and monthly basis which are viewed by management on regular basis.

Control Environment The compliance is being led by Mr. Rehan Saif. The Company is in the process of development/testing phase system base controls to monitor exposure limits and margins.

Investment Risk Management

Credit Risk The Company uses excel based credit risk models for credit risk monitoring with focus on qualitative and quantitative analysis. The Company has controls in place to ensure exposure limits.

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

Market Risk For managing market risk, various techniques such as VaR analysis, beta analysis and stress testing are being used. The exposure limits are clearly communicated to portfolio managers along with periodic review of appropriateness of limit structure.

Portfolio Management

IC Composition The investment committee comprises of the Chief Executive Officer, Chief Financial Officer, Head of Risk Management, Head of Equities, Head of Fixed Income, Head of Research and respective Fund Managers.

Effectiveness The investment committee comprises of qualified and experienced professionals. The investment committee meets on weekly basis and reviews the investment strategy of each fund under management and its performance on regular basis to incorporate the impact of market circumstances on funds' performance.

Investment Research And Analysis The research function operates under the supervision of Head of Equity and a team of 03 subordinates. The department uses various techniques including the fundamental analysis of key sectors and stocks to identify attractive investment avenues. For equity valuation, standard financial models are utilized, and broker research is also considered.

Customer Relationship

Investor Services The marketing team maintains relationship with existing and prospective clients. In order to remain competitive, the Company has been implementing strategies for integrating information technology in all the processes facilitating its customers. The Company uses Imaan brand for Islamic funds of the AMC.

Investor Reporting The Company also issues Fund Manager's Report, elaborating the Fund's performance and investment strategies covering all the mandatory disclosure requirements.

Distribution And Sales Network The Company uses 100% branch network of the ABL bank and 8 Saving Centers along with establishing its dedicated Islamic Saving Centers. ABL AMC uses separate "ABL Funds" mobile app for AMC customers along with capitalizing on myABL App of sponsor bank. The Company has established WhatsApp Business Solutions enabling the clients to submit messages to WhatsApp network users, as well to receive messages sent from WhatsApp network end-users back to enterprises. The Company launched a Comprehensive Digital Onboarding Solution to enable account creation within minutes and start investing without delay. The AMC has also dedicated call center representatives for asset manager clients only along with fully automated voice command facility. The Company has recently signed distribution agreement with a private bank as well.

Performance

Asset Under Management ABL AMC's AUMs stood at PKR 114bn at Oct'22 (Jun'21: PKR 78.6bn). The main inflow is from money market categories, specifically ABL cash fund and ABL Islamic Cash Fund. The Company has not shown any significant growth in SMAs portfolio, since Jun'21, however, client's stickiness is an add-on over the portfolio.

Asset Manager On account of conversion of funds from equity to money market category, the management fees earned has shown a slight decrease and stood at PKR 203mln, at end 1HCY22 (1HCY21: PKR 278mln). At end 1HCY22, the Company reported a loss after tax of PKR 57mln (1HCY21: profit of PKR 245mln). The loss is mainly attributable to revaluation of investments at FVTPL. The equity stood at PKR 2.9bn, keeping the Company well above the minimum equity requirements.

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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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

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(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)

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(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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