



The Pakistan Credit Rating Agency Limited

Rating Report

AL Habib Capital Markets (Pvt.) Limited | BMR

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Jul-2024	BMR2+	-	Stable	Maintain	-
19-Jul-2023	BMR2+	-	Stable	Maintain	-
19-Jul-2022	BMR2+	-	Stable	Maintain	-
07-Sep-2021	BMR2+	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Al Habib Capital Markets (Pvt.) Limited (“AHCML” or “the Company”) is primarily engaged in the provision of equity brokerage while income from MTS and MFS also aids the topline. Since Oct’23, the KSE-100 Index has experienced a surge in investor interest, breaching the 81k mark during July 2024. The brokerage industry results for FY24 as a result are expected to be good. FY25 is expected to largely remain positive for the industry; however, political and macro-economic factors remain critical. The assigned rating incorporates the business acumen of the primary sponsor “Bank Al Habib Limited”. Representation of the primary sponsor on the board is well noted. The addition of an independent director would improve governance oversight. The rating takes note of AHCML’s well-developed organizational structure with a qualified and experienced management team. The presence of a separate internal audit department contributes positively to the rating; however, the separation of risk and compliance functions would strengthen the control framework further. AHCML provides online trading, a grievance addressing portal, and research facilities to its clients. The Company has devised a comprehensive Disaster Recovery and Business Continuity Plan to tackle any uncertain events. The addition of Online Sales and Marketing has enhanced the sound client services further. The brokerage revenue of AHCML in 1QCY24 clocked in at ~PKR 46mln while it stood at ~PKR 17mln in SPLY depicting an incline of ~170%, while the topline grew by ~32% in CY23 as compared to CY22. This incline aligns with the overall market volume increase of more than ~100% observed during the same period. The Company maintains proprietary investments, mainly in GoP securities, hence market risk exposure is limited. The Liquid Capital Balance of the Company clocked in at ~PKR 176mln with an equity base of ~PKR 378mln at end-Mar’24. Whereas, LCB of the company stood at 302mln with an equity base of 376mln as at end Dec’23. The management is on a move to improve the technological infrastructure to facilitate the onboarding of retail clientele. Moreover, geographical diversification is also under consideration to enhance client outreach.

Going forward, sustainability of market share, revenue, and profitability will remain imperative, while upholding strong internal controls and risk management framework and retention of key management is critical. Further, rational diversification of business activity may provide support to the company’s overall financial risk profile.

Disclosure

Name of Rated Entity	AL Habib Capital Markets (Pvt.) Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Assessment Framework Broker Management Rating(Nov-23)
Related Research	Sector Study Brokerage & Securities(Jan-24)
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Ownership

Ownership Structure Bank AL Habib Limited (BAHL) is the major shareholder of AHCML, accounting for two-third of the ownership. The remaining one-third is held by Habib Family, friends and associates.

Stability Habib Group has been historically involved in the banking sector for about 80 years. BAHL operates through a network of 1090 branches /sub-branches, including 165 Islamic banking branches at end-Mar'24.

Business Acumen The CEO, Mr. Aftab Q. Munshi possesses diversified experience in capital markets. He is serving on the Board of Directors of AHCML as Chief Executive since its incorporation. Mr. Munshi served with the Jahangir Siddiqui Group for almost 12 years in multiple roles. He headed their Equity Operations for about five years.

Financial Strength The sponsors have sizeable net worth and may provide support to the Company with the increasing quantum of operations. Bank AL Habib Limited enjoys a rating of AAA, assigned by PACRA. The assets of BAHL stood at ~PKR 2,515bln at end-Mar'24.

Governance

Board Structure The Company has six directors on the board including CEO and Chairman. There are 5 non-executive directors and 1 executive director. Presence of independent insight would be an encouraging factor from the ratings perspective.

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 During the period under review, three board meetings were conducted and attended by the majority of the board members. The board is always provided with MIS pack prior to the meeting and the meeting discussions are properly documented in the form of minutes.

Financial Transparency The external auditors of the Company are EY Ford Rhodes, Chartered Accountants. They have expressed an unqualified opinion on the financial statements for CY23. The firm is QCR rated by ICAP and is in the A Category of SBP's panel of auditors.

Management

Management Team The management of AHCML is well qualified and experienced to manage the Company's operations efficiently. The CFO Mr. Rizwan Hashmi is a Fellow Member of Association of Chartered Certified Accountant. He has been serving as CFO & Company Secretary of AL Habib Capital Markets (Pvt.) Limited since March 2017.

Organizational Structure The Company has well developed organizational structure to manage its operations and appropriate policies to protect the client's interest and to preserve their good faith and trust. The Company operates through one branch office and the Head Office located in Karachi. The COO and CFO report to the Company's CEO. However, the internal audit and compliance departments report to the Audit Committee.

Client Servicing AHCML regularly publishes reports on market strategy, economy, daily news and market updates. AHCML has provided direct links to relevant institutions and departments on their website. Moreover, various channels, including a mobile app and online trading platforms, are available to execute and monitor the transactions.

Complaint Management A designated officer has been assigned the responsibility for handling and rectification of complaints. Complaints can also reach the Company through telephone, email, and website. Direct links for PSX and SECP are also available on website to lodge complaints.

Extent Of Automation / Integration AHCML has comprehensive and effective IT arrangement to deal with dynamic technological environment prevailing in the capital markets arena. The "Catalyst System" is deployed for online trading transactions with PSX and online monitoring of the margin exposure.

Continuity Of Operations AHCML has established a recovery plan for all essential infrastructure elements, systems, networks, and key business activities. The business continuity plan provides a framework for business departments if a major incident occurs, causing disruption to pre-defined critical services.

Risk Management Framework The Company has an in-house internal audit department, which monitors implementation of the policies and procedures of AHCML. Audit Committee further ensures an effective control environment. For an effective control environment and compliance with reporting standards, AHCML has constituted an Audit Committee and Investment Committee at the board level. Management Committee of AHCML reviews/monitors risk management of the Company amongst other matters.

Regulatory Compliance Compliance Department ensures regular monitoring of controls and systems, which ensures that all functions are in-line with the applicable policies, procedures and regulations. Research analyst policy has also been formulated.

Business Sustainability

Business Risk Since Oct'23, the KSE-100 Index has experienced a surge in investor interest, with the index breaching historic high levels continuously and breaching the 75k mark for the first-time during May'24. The market P/E ratio is still considerably low and the index is expected to grow further. Of particular note is the decision of the country's policy rate, and the expected rate cut at the start of FY25 shall give rise to fresh buying as investors shift the focus from fixed-income to the equity market. While FY24 shall have good results for the brokerage industry, political and economic stability are key factors to uphold investor interest during FY25.

Business Profile AHCML's service offering includes Equity Brokerage and Economic and Investment Research. The clientele of the Company is segmented into three categories i) HNWI's ii) Financial Institutions iii) Retail.

Revenue And Profitability Analysis During 1QCY24 the equity brokerage revenue was reported at PKR 46mln, which has contributed ~67% to the total revenue (SPLY: PKR 17mln) while revenue clocked in at PKR 68mln 1QCY24 as compare to ~PKR 34mln SPLY.

Financial Sustainability

Credit Risk For the assessment of client's creditworthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. The exposure limits as a whole and on individual basis are monitored and any shortfalls are immediately reported to senior management for prompt action.

Market Risk AHCML has maintained a proprietary portfolio. However, major exposure is in Government securities. The Company has formalized an investment policy whereby limits have been defined to mitigate the risks. The compliance department monitors the limits consistently.

Liquidity Profile At the end-Mar'24, the current assets of the Company were ~PKR 1162mln (SPLY: ~PKR 1331mln) against the current liability of ~PKR 824mln (SPLY: ~PKR 995mln).

Financial Risk The Company has an adequate capitalization level with regulatory Liquid Capital Balance (LCB) standing at PKR ~176mln as at Mar-24. As per regulations, The Company has adequate risk absorption capacity reflected by its adequate and increasing equity base of ~PKR 378mln as in 1QCY24 against ~PKR 376mln in SPLY.



PKR mln

Al Habib Capital Markets (Pvt.) Limited Private Limited	Mar-24	Dec-23	Dec-22	Dec-21
	3M	12M	12M	12M
A BALANCE SHEET				
1 Finances	9	3	91	452
2 Investments	103	101	251	192
3 Other Earning Assets	170	361	82	259
4 Non-Earning Assets	938	907	419	186
5 Non-Performing Finances-net	0	0	0	0
Total Assets	1,220	1,372	844	1,089
6 Funding	557	590	267	464
7 Other Liabilities (Non-Interest Bearing)	267	405	239	252
Total Liabilities	824	996	506	716
Equity	378	376	338	373
B INCOME STATEMENT				
1 Fee Based Income	58	93	108	138
2 Operating Expenses	(32)	(132)	(117)	(112)
3 Non Fee Based Income	10	105	74	54
Total Operating Income/(Loss)	37	66	64	81
4 Financial Charges	(28)	(59)	(63)	(24)
Pre-Tax Profit	8	7	1	57
5 Taxes	(4)	(4)	(4)	(15)
Profit After Tax	5	3	(3)	41
C RATIO ANALYSIS				
1 Cost Structure				
Financial Charges / Total Operating Income/(Loss)	78%	89%	98%	30%
Return on Equity (ROE)	5%	2%	-1%	16%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	31%	27%	40%	34%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	3%	50%	56%	222%
3 Liquidity				
Liquid Assets / Total Assets (D+E+F)	77%	67%	73%	30%
Liquid Assets / Trade Related Liabilities	410%	251%	287%	143%
4 Credit & Market Risk				
Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	103%	54%	43%	8%
Equity Instruments / Investments	16%	19%	27%	63%

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>
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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

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)

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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 | 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)

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