



The Pakistan Credit Rating Agency Limited

**Rating Report**

**Amanah Investments Limited | BMR**

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Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Nov-2022	BMR3	-	Stable	Maintain	-
23-Nov-2021	BMR3	-	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

Amanah Investment Limited (“AIL” or the “Company”) mainly provides equity brokerage services with an emphasis of trading only in a Shariah-Compliant manner and operating on the Islamic principles of trading. The Company expanded brokerage operations for the public and initiated client on-boarding in the year 2020. Previously, AIL was focused only on running its Propriety Book. Since, AIL emphasizes trading only in a Shariah-Compliant manner, the Company will have the privilege of capturing a niche market, however, the Company will not be able to deal in MTS, MFS, and other leverage-based products. The internal controls and organizational structure are commensurate with the size of the business. The control environment could be strengthened with the formation of an independent internal audit department and with the implementation of board approved policies. For client servicing, the Company has in place a mechanism for resolution of client grievances, order recording and reporting; however, a customized online trading platform could be considered to improve the client experience. The Company may consider establishing a research department which would aid in enhancing client relationships and would help in the on-boarding of corporate clientele. The Company has an adequate governance framework which may be enhanced through the inclusion of independent board members resulting in an increased effectiveness of the board level committees. The assigned rating takes comfort from the business acumen of the primary sponsor. The Company has earned a brokerage revenue of ~PKR 4mln in FY22 as compared to ~PKR 6mln in FY21. The decline came on the back of falling market volumes. The Company has earned ~PKR 12mln in terms of dividends which has supported the total operating revenue. The Company manages a proprietary book with a market value of ~PKR 13mln at end-Jun’22 which has exposed the bottom line to market volatility as seen by loss after tax of ~PKR 43mln in FY22 (SPLY: ~PKR 75mln - Profit). The loss on proprietary book, although unrealized, have left its impact on the Company’s equity which stands at ~PKR 179mln at end-Jun’22 (SPLY: ~PKR 221mln). The topline is concentrated in a few clients; however, the Company has some initiatives in progress to improve the client base. The Company intends to remain debt free for Shariah Compliance which is an encouraging factor.

The ratings would remain dependent on the management’s ability to strengthen the revenue base by augmenting consultancy and advisory services. Retaining market share and sustaining profitability from core operations remain critical. Meanwhile, upholding strong internal controls and diligent monitoring of risks is important.

Disclosure	
<b>Name of Rated Entity</b>	Amanah Investments Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	Assessment Framework   Broker Management Rating(Jun-22)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-22)
<b>Rating Analysts</b>	Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504



## Ownership

**Ownership Structure** Amanah Investments Limited is predominately owned by a family. The majority of shares are owned by the primary sponsor, Mr. Abdul Wahab Omar, also the Company's Chief Executive Officer.

**Stability** The Company was formed in 2005 and commenced operations in 2015 with proprietary trading. The Company further expanded client on-boarding in 2020. The Company is a Corporate Member of the Pakistan Stock Exchange and registered with the Securities & Exchange Commission of Pakistan (SECP) under Securities Brokers (Licensing and Operations) Regulations 2016.

**Business Acumen** The Company's sponsor possesses the relevant educational background and extensive industry-specific working knowledge. The overall assessment of the strategic thinking capability of the sponsor is comfortable

**Financial Strength** The key sponsor, Mr. Abdul Wahab has adequate net worth and may provide financial support in time of need.

## Governance

**Board Structure** The Company's board of directors comprises three individuals including the CEO – Mr. Abdul Wahab. All of the directors are executive and there is room for improvement through the induction of independent directors on the board.

**Members' Profile** Mr. Abdul Wahab Omar has over 20 years of experience in the Financial Markets sector. Being an MSc in Investments Management, he specializes in mergers and acquisitions. Mr. Muhammad Omar who acts as the chairman has been with the Company since its inception.

**Board Effectiveness** The experience of the board helps in providing useful insight into the business management and guiding the management in effectively developing and optimizing the organizational procedures and policy. The board meeting is held quarterly. Board minutes are very concise and capture details of the discussion. The Company has formed HR committee and Internal Audit Committee at the board level; however, the effectiveness of these committees could be improved with defined TORs and by improving the governance structure.

**Financial Transparency** Reanda Haroon Zakaria has been engaged as the Company's external auditor during FY22. The firm is QCR rated and is included in category 'B' of the SBPs panel of auditors. Moreover, the auditors have issued an unqualified opinion on the financial statements of FY22.

## Management

**Management Team** Mr. Muhammad Irfan, Mr. Adeel Ahmed, and Mr. Aryn Abdul Wahid act as part of the senior management for Amanah Investments Limited. All the members of the senior management boast creditworthy educational credentials. Mr. Muhammad Irfan is a Masters's in Economics and has been with the company since 2011 and serves as the Company Secretary. Mr. Adeel Ahmed is performing his role in the capacity of Head of Investments and has replaced Mr. Ali Sufyan during the period under review. Mr. Aryn Abdul Wahid is the Chief Strategy Officer.

**Organizational Structure** The Company has a lean organizational structure with an experienced management team and a balanced mix of professionals from the finance industry. All of the departmental heads report to the CEO.

**Client Servicing** The Company maintains comprehensive account opening practices in line with regulatory requirements. The facility for online trading is provided via KITS. A research department could be established for client facilitation which may also bode well to tap institutional clientele.

**Complaint Management** The Company has established an internal complaint resolution process to cater to the client's queries. A dedicated email address to register complaints is displayed on the Company's website. The Company acknowledges the receipt of the complaint within 24 hours and a maximum resolution time of 72 hours has been defined.

**Extent Of Automation / Integration** The front and back office systems are integrated. Moreover, trading and client services are taken by PSX through KITS. Implementation of a new and more sophisticated back office system is under consideration to cater the increase in client base.

**Continuity Of Operations** Data is currently saved on the back office system with its backup in the main server. The backup file is also stored in a separate hard drive as a preventive measure in case of any disaster. Access to the hard drive is kept within the management and back office personnel. In case of Disaster, Separate KATS, CDC, and NCCPL terminal are installed at the Head Office of the company which can be activated through email.

**Risk Management Framework** The Company has already framed and adopted the AML/CFT policy and procedures in light of the guidelines of PSX and SECP. With regular training of employees, the Company makes sure that the revisions and updates are known to the employees. The risk management framework may be improved further with the formation and implementation of other policies, over and above as required by law.

**Regulatory Compliance** The compliance department, headed by Mr. Muhammad Irfan and supported by Mr. Jahangir Jawed who ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures.

## Business Sustainability

**Business Risk** Pakistan's economy has been volatile so far during FY22, with the sustained high inflation and political instability getting further compounded by the devastating floods that have ravaged both the North and South of the country. The revival of the IMF program and receiving the tranche of \$1.16bln is a positive indication; however, the pressure on the domestic economy remains high due to the implementation of further taxes and levies to continue to adhere to the IMF conditions. Going forward, the market may adopt a 'wait and see' approach for some time before volumes surge again as activity rebounds once the post-flood rebuilding starts.

**Business Profile** AIL emphasizes trading only in a Shariah-Compliant manner and operating on the Islamic principles of trading. Whilst the initiative is commendable and the Company will have the privilege of capturing a niche market, the Company will not be able to deal in MTS, MFS, and other leverage-based products. AIL primarily provides the services of equity brokerage.

**Revenue And Profitability Analysis** The brokerage revenue is lower compared to peers due to the fact that the Company focuses on trading only in a Shariah Compliant manner. The revenue from equity brokerage has witnessed a decline due to a fall in the volumetric activity at the bourse. The Company earned revenue from equity brokerage of ~PKR 4mln in FY22 (SPLY: ~PKR 6mln). The Company has suffered a loss of ~PKR 43mln in FY22 as compared to a profit of ~PKR 75mln in FY21. The loss is attributable to a significant unrealized loss incurred on the proprietary book.

## Financial Sustainability

**Credit Risk** The Company has detailed KYC/CDD procedures in place for the assessment of the client's creditworthiness.

**Market Risk** There is a high exposure to market risk as the Company is running a proprietary book with a market value of ~PKR 138mln which constitutes ~77% of the equity at end-Jun'22 (FY21: ~78%).

**Liquidity Profile** The Company reported current assets of ~PKR 160mln for FY22 as compared to current liabilities of ~PKR 22mln. Liquid assets are considered adequate to account for current liabilities of the Company.

**Financial Risk** Amanah has an adequate capitalization level with regulatory Liquid Capital Balance (LCB) standing at PKR~84mln at end-Jun'22. The Company's equity has declined from ~PKR 221mln at end-Jun'21 to ~PKR 179mln at end-Jun'22 due to the unrealized losses on the proprietary book.



PKR mln

**Amanah Investments Limited**  
**Public Unlisted**

Jun-22	Jun-21	Jun-20
12M	12M	12M

**A BALANCE SHEET**

1 Finances	0.00	0.00	0.00
2 Investments	167.95	200.92	136.36
3 Other Earning Assets	2.05	12.64	2.16
4 Non-Earning Assets	31.28	43.37	33.74
5 Non-Performing Finances-net	0.00	0.00	0.00
<b>Total Assets</b>	<b>201.27</b>	<b>256.93</b>	<b>172.26</b>
6 Funding	2.03	2.03	2.03
7 Other Liabilities (Non-Interest Bearing)	20.53	33.50	23.36
<b>Total Liabilities</b>	<b>22.56</b>	<b>35.53</b>	<b>25.39</b>
<b>Equity</b>	<b>178.72</b>	<b>221.43</b>	<b>146.87</b>

**B INCOME STATEMENT**

1 Fee Based Income	3.88	5.73	0.99
2 Operating Expenses	(11.54)	(8.87)	(3.94)
3 Non Fee Based Income	(32.84)	79.93	8.60
<b>Total Operating Income/(Loss)</b>	<b>(40.50)</b>	<b>76.79</b>	<b>5.65</b>
4 Financial Charges	0.00	0.00	(0.00)
<b>Pre-Tax Profit</b>	<b>(40.50)</b>	<b>76.79</b>	<b>5.65</b>
5 Taxes	(2.21)	(2.22)	(0.78)
<b>Profit After Tax</b>	<b>(42.72)</b>	<b>74.57</b>	<b>4.86</b>

**C RATIO ANALYSIS**

**1 Cost Structure**

Financial Charges / Total Operating Income/(Loss)	0%	0%	0%
Return on Equity (ROE)	-21%	40%	3%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	89%	86%	85%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	-1996%	-0.44	-0.75

**3 Liquidity**

Liquid Assets / Total Assets (D+E+F)	69%	67%	64%
Liquid Assets / Trade Related Liabilities	672%	528%	469%

**4 Credit & Market Risk**

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	0%	0%	0%
Equity Instruments / Investments	100%	100%	100%

**Broker Management Rating**

An independent opinion on the quality of management and services provided by a broker

Scale	Definition
<b>BMR 1A</b>	<b>Excellent.</b> Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++</b> <b>BMR 1+</b> <b>BMR 1</b>	<b>Strong.</b> Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++</b> <b>BMR 2+</b> <b>BMR 2</b>	<b>Sound.</b> Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++</b> <b>BMR 3+</b> <b>BMR 3</b>	<b>Adequate.</b> Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++</b> <b>BMR 4+</b> <b>BMR 4</b>	<b>Inadequate.</b> Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak.</b> Weak regulatory compliance and business practices.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> 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**

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)

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(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)

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(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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