



The Pakistan Credit Rating Agency Limited

## Rating Report

### AHM Securities (Pvt.) Limited | BFR

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#### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
14-Jun-2024	BFR 3	Stable	Maintain	-
14-Jun-2023	BFR 3	Stable	Maintain	-
14-Jun-2022	BFR 3	Stable	Initial	-

### Rating Rationale

Factor	Comment
<b>Ownership</b>	The rating incorporates the long standing experience of the primary sponsor Mr. Adam Haji Muhammad who owns the majority shareholding of ~99.6%.
<b>Governance</b>	The Company has an adequate board structure comprising of three directors, all representing the shareholder family members. Inclusion of independent representation may be considered to strengthen the governance framework.
<b>Management and Client Services</b>	The Company has a lean organizational structure with an experienced and qualified management team. AHM has provided its client with the facility of online trading featuring universal access to their accounts. Moreover, formation of research department may enhance the level of client services.
<b>Internal Controls and Regulatory Compliance</b>	AHM has a dedicated compliance head who ensures effective compliance reporting. The Company has implemented the control framework which commensurate with the scale of business operations.
<b>Business Sustainability</b>	AHM has performed adequately during 1HFY24. The Company reported a net profit of ~20mln in 1HFY24 (SPY: ~PKR 5mln). The profit stems from brokerage income and gains on proprietary investment.
<b>Financial Sustainability</b>	AHM is managing a prop-book which exposes it to market risk. At end Dec'23, the proprietary investment stood at ~PKR 35mln, as compared to ~PKR 43mln at end Dec'22. The Company has adequate capitalization level with the equity standing at ~PKR 143mln at end Dec'23 (SPY: ~PKR 129mln).

### Key Rating Drivers

AHM Securities Pvt. Limited ("AHM" or "the Company") focuses primarily on delivering equity brokerage services as its core product portfolio. The brokerage industry has picked up pace since October'23 and the KSE-100 Index has constantly breached historic high levels. AHM took advantage of the market uptick and earned realized/unrealized gains of ~PKR 20mln through prop book in 1HFY24 as compared to loss of ~PKR 0.2mln in 1HFY23. Accordingly, profitability of the Company also improved. Moving forward, revenue and customer diversification is important for the rating. Meanwhile, it is imperative to uphold robust internal controls, retention of key management personnel, enhancement of market share, and sustainability in profitability.

#### Disclosure

<b>Name of Rated Entity</b>	AHM Securities (Pvt.) Limited   BFR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Fiduciary Rating (BFR)
<b>Applicable Criteria</b>	Assessment Framework   Broker Fiduciary Rating(Jan-24)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-24)
<b>Rating Analysts</b>	Hassaan Ahmad   Hassaan.Ahmad@pacra.com   +92-42-35869504

## Profile

**Background** Established in 2005, AHM Securities (Pvt.) Limited (“AHM” or the “Company”) is working in Pakistan’s financial services industry for over 15 years. The Company is a TREC holder of Pakistan Stock Exchange (PSX)  
**Operations** With its head office based in Karachi, the Company’s principal activities comprise equity brokerage.

## Ownership

**Ownership Structure** Mr. Adam Haji Muhammad owns ~99.6% of the total shares and is also the board chairman. The remaining shareholding lies with Mr. Anis Haji Muhammad and Mr. Feroz Haji Muhammad.  
**Stability** The successors have been identified within the family; however, a formal succession plan is encouraged.  
**Business Acumen** The Chairman, Mr. Adam Haji Muhammad possesses enormous experience in capital markets, he has been working as a stock broker for over 25 years.  
**Financial Strength** Mr. Adam Haji Muhammad has a sizeable net worth. Further capital may be injected in the Company with increasing quantum of operations and on need basis.

## Governance

**Board Structure** The board of directors comprises of three members all of whom are the shareholder family members. The board may be enhanced further by more induction.  
**Members’ Profile** The board of directors is chaired by Mr. Adam Haji Mohammad, the primary sponsor. He possesses the necessary skills and experience required for capital markets and is the primary source of board-level expertise.  
**Board Effectiveness** The Company currently comprises two board committees namely Audit Committee and Risk Management Committee at the board level; the presence of independent directors may further improve the effectiveness.  
**Financial** The external audit of the Company is being carried out by the audit firm, UHY Hassan Naeem & Co. The auditors of the Company are classified in the ‘B’ category of the State Bank of Pakistan’s panel of Auditors.

## Management And Client Services

**Organizational Structure** The Company has a lean organizational structure with adequate departmentalization, an experienced management team, and a balanced mix of professionals from the finance industry. The Company’s functions are divided into 1) Operations, 2) Finance 3) Internal audit and Compliance, and 4) Equity Trading.  
**Management Team** The CEO - Mr. Hammad Tahir, Mr. Nauman Yousaf - the CFO, Mr. Muhammad Faraz - Finance Manager, and Mr. Javaid Akhtar- are integral to senior management. All members of the senior management boast creditworthy educational credentials. Mr. Hammad Tahir holds a Master’s degree in Business Administration and Economics. He has been with the Company since its inception and is the Chief Executive Officer.  
**Client Servicing** The Company offers multiple account opening mediums. Similarly, various channels, including a mobile app, are available to customers to execute and monitor their transactions.  
**Complaint Management** An adequate complaint management system is in place. Complaints can be made via e-mail, SMS, and calls. A contact number and designated email are provided to lodge the complaints.  
**Extent Of Automation / Integration** AHM has a technology-driven trading platform that allows seamless and secure trading. It facilitates the market participants to connect from across the globe and trade virtually. The system provides real-time portfolio updates and trade executions along with real-time market quotes.  
**Continuity Of Operations** AHM has a disaster recovery plan in place to ensure business continuity at the time of disaster. An off-site data backup facility is also in place.

## Internal Controls And Regulatory Compliance

**Risk Management Framework** The risk management framework revolves around the risk management committee. The committee review, measures and assess the risk practices of the Company and review risk measurement and assessment, risk mitigation, risk reporting, and monitoring.  
**Regulatory Compliance** The compliance department is headed by Mr. Mahmood Hameed Moten, who is also acting as company secretary. Segregation of compliance from other functions is encouraged.

## Business Sustainability

**Operating Environment** The Brokerage industry faced extremely low years during FY22 and FY23, due to limited investor interest. High interest rates and clipping inflation resulted in investor opting for safer fixed income returns instead of the riskier equities market. The trend continues during 1QFY24; however 2QFY24 experienced a surge in investor interest, pushing the KSE 100 index to historic highs. The 2HFY24 is expected to stabilize in terms of market volumes and index trading between the 60K to 75K point range, with expectation of another surge as market P/E ratio is still hovering around the low 5.5x mark. On the other hand, political sentiments play a key role and the focus remains on the government to provide answers to economic stability. Moreover, continued support from the IMF remains critical.  
**Performance** AHM’s operating revenue is concentrated in equity brokerage. The company reported net profit after tax of ~PKR 19mln in 1HFY24 compared to profit of ~PKR 5mln in 1HFY23.  
**Strategy** Going forward, AHM plans to increase the institutional client base while the focus will also be given on the retail side. Also, the Company has merged with M/S Agromet Commodities (Pvt.) Limited which increases its management strength and enables it to utilize the benefit of the PMEX license of the said company

## Financial Sustainability

**Credit Risk** The Company has prepared and implemented well-defined KYC and CDD policies. The entire CDD process is comprehensive and well documented, especially in the account opening and client risk assessment stages.

**Market Risk** AHM is running a Prop-book with a market value of ~PKR 108mln constituting ~93% of the equity at end Dec'23. There is no formal proprietary trading policy in place, all the decisions pertaining to prop-trade are made by the primary sponsors.

**Liquidity Risk** AHM has an adequate liquidity profile. The Company reported current assets of ~PKR 324mln for 1HFY24 as compared to current liabilities of ~PKR 214mln.

**Capitalization** The Company has a reasonable capitalization level with regulatory Liquid Capital Balance (LCB) standing at PKR 79mln at end-Dec'23. The Company has an equity base of ~PKR 143mln in 1HFY24 with SPLY of ~PKR 130mln.



THE PAKISTAN CREDIT RATING AGENCY

AHM Securities (Pvt.) Limited  
PRIVATE LIMITED  
FINANCIAL SUMMARY

FS PRINT MODE DISABLED

Dec-23 FY24 6M Management	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited	Jun-21 FY21 12M Audited
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**BALANCE SHEET**

1 FINANCES	-	-	-	-
2 INVESTMENTS	151.61	122.52	58.35	95.19
3 OTHER EARNING ASSETS	-	0.03	0.01	0.01
4 NON-EARNING ASSETS	212.42	98.39	244.99	357.60
5 NON-PERFORMING FINANCES-net	-	-	-	-
<b>TOTAL ASSETS</b>	<b>364.03</b>	<b>220.93</b>	<b>303.35</b>	<b>452.80</b>
6 FUNDING	83.32	44.78	15.28	23.60
7 OTHER LIABILITIES (NON-INTEREST BEARING)	137.95	57.75	159.59	255.87
<b>TOTAL LIABILITIES</b>	<b>221.26</b>	<b>102.53</b>	<b>174.87</b>	<b>279.48</b>
<b>TOTAL EQUITY</b>	<b>142.77</b>	<b>118.38</b>	<b>128.51</b>	<b>173.37</b>

**INCOME STATEMENT**

<b>INCOME</b>				
1 FEE BASED INCOME	49.75	45.44	25.61	64.99
2 OPERATING EXPENSES	(22.57)	(41.61)	(46.21)	(49.22)
3 NON-FEE BASED INCOME	-	-	-	47.39
<b>TOTAL OPERATING INCOME (LOSS)</b>	<b>27.18</b>	<b>3.83</b>	<b>(20.60)</b>	<b>63.16</b>
4 FINANCIAL CHARGES	(5.93)	(6.77)	(19.32)	(1.14)
<b>PRE-TAX PROFIT</b>	<b>21.24</b>	<b>(2.93)</b>	<b>(39.92)</b>	<b>62.00</b>
5 TAXES	(1.49)	(1.48)	(1.13)	(4.73)
<b>PROFIT AFTER TAX</b>	<b>19.75</b>	<b>(4.42)</b>	<b>(41.05)</b>	<b>57.27</b>

**RATIOS**

**BUSINESS SUSTAINABILITY**

1 PRE-TAX MARGIN	1.76	(0.13)	(1.38)	0.97
2 EBITDA MARGIN	2.25	0.17	(0.71)	0.99
3 EBIT RETURN ON ASSETS	0.17	0.01	(0.05)	0.19

**FINANCIAL SUSTAINABILITY**

1 TOTAL INVESTMENTS / EQUITY	1.06	1.03	0.45	0.55
2 LIQUID CAPITAL BALANCE (LCB) / EQUITY	0.55	0.36	0.54	0.66
3 (CASH, CASH EQUIVALENTS & GOVERNMENT SECURITIES) / TOTAL ASSETS	0.24	0.08	0.49	0.49
4 TOTAL DEBT / TOTAL ASSETS	0.23	0.20	0.05	0.05

### Broker Fiduciary Rating Scale & Definitions

An independent opinion on a broker's quality of management and client services, and sustainability of operations

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

<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

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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)

### **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 | 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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