



The Pakistan Credit Rating Agency Limited

Rating Report

Aba Ali Habib Securities (Pvt.) Limited | BMR

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Mar-2022	BMR2	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Aba Ali Habib Securities (Pvt.) Limited (“AAH” or “The Company”) is one of the oldest brokerage houses, established in 1970. The Company is primarily engaged in the provision of equity brokerage services while diversity exist in the form of commodity brokerage, MTS, MFS and IPO distribution. In the near future, the management has planned to enhance the institutional clientele and to venture into the IPO advisory and underwriting business. The management also intends to improve the technological structure for swift on-boarding of retail clientele. Moreover, geographical diversification is also under consideration to improve client outreach. Financial assessment indicates a notable improvement of ~95% in core income. The boost came on the back of new investors on-boarding and uptick in trading volumes in FY21. On the other hand, notable gains on short-term investments resulted in profit-after-tax of ~PKR 410mln for FY21 (FY20: ~PKR 3mln). The Company has a strong equity base of ~PKR 986mln at end-Jun’21 which provides a cushion against unexpected shocks. The rating takes comfort from a low leveraged capital structure. The Company actively manage its investment book whereby the funds are strategically moved between equity and fixed income avenues based on market expectations. The market has observed volatility in terms of trading volumes in the recent months which may impact the commission revenue going forward. The rating signifies a strong internal control environment supported by outsourced internal audit, dedicated compliance department and the presence of audit and risk management committees. However, the extent of policies may be enhanced further with the addition of more detailed guidelines. The availability of online trading, mobile-app, complaint system and research department results in a sound client servicing. The assigned rating takes into account a sound ownership structure. The governance framework may be enhanced further with the induction of certified independent directors.

Going forward, improvement in core income, sustainability of market share and profitability and materialization of planned business strategies remains critical. Meanwhile, upholding strong internal controls, sound governance structure, retention of key management personnel and diligent monitoring of risks is important.

Disclosure

Name of Rated Entity	Aba Ali Habib Securities (Pvt.) Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Methodology Broker Management Rating(Jul-21)
Related Research	Sector Study Brokerage & Securities(Jan-22)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504



Ownership

Ownership Structure Aba Ali Habib Securities (Pvt.) Limited (AAH or "The Company") is a family owned Company with the majority ownership belonging to Mr. Aba Ali Habib (99.99%).

Stability The sponsors have sizeable net worth and may provide support to the business in the times of need. Formulation of a well defined succession plan at the shareholder level is encouraged for business sustainability.

Business Acumen The primary sponsor Mr. Aba Ali Habib has been associated with the capital markets for over forty years, and has diversified experience in the field of equity brokerage.

Financial Strength The sponsors have a sizeable net worth and provide support to the Company in the times of need.

Governance

Board Structure AAH's board is comprised of six directors including the CEO Mr. Zahid Ali Habib, while four of the directors are non-executive. Inclusion of independent directors on board may result in further strengthening of the overall governance structure.

Members' Profile Mr. Abid Ali Habib has a vast experience of over 30 years of Pakistan's capital market. He has been elected as Director of Pakistan Stock Exchange for eight times and Chairman of Trading Affairs Committee, Information Technology Committee, New Product Committee, Company Affairs Committee and Index Committee. He has been director of Central Depository Company and National Clearing Company various times and represented as nominee at various International forums. Mr. Muhammad Munir is a qualified Chartered Accountant. He possess more than 20 years of experience in Capital Market, Asset Management and Mutual Fund Management.

Board Effectiveness AAH has established an Audit Committee, Investment Committee, HR Committee and Risk Management Committee at the Board level.

Financial Transparency AAH has appointed M/s Naveed Zafar Ashfaq Jaffery & Company as the external auditors who are placed in the 'A' category by the SBP. The auditors have expressed an unqualified opinion on the Company's financial statements for the year ended June'21. AAH has also outsourced its internal audit department to Afras & Co.

Management

Management Team The management is experienced to manage the Company's operations efficiently; however, the quality may be improved further by nurturing of educational profile. The CEO, Mr. Zahid Ali Habib holds an MBA in Finance from Institute of Business Administration. He has an extensive experience of over 25 years in the areas of fund management, capital markets, brokerage operations and regulatory affairs.

Organizational Structure AAH has developed an adequate organizational structure and operates through eight departments namely i) Operations ii) Finance iii) Compliance iv) Sales v) Proprietary Trading vi) IT vii) Research and, viii) Human Resource. All of the departmental heads directly report to the CEO. However, the Internal Audit which is outsourced, directly reports to the Board Audit Committee.

Client Servicing AAH 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. A research department is also present to cater the needs of institutional clientele.

Complaint Management AAH has provided an electronic form on the face of its website to lodge online complaints and complaints can be made via e-mail and calls. The customer service department is responsible for the complaint management system.

Extent Of Automation / Integration AAH's front-end is sourced by 'Catalyst' while the back-end is supported by 'Micro Links'. There is smooth integration between the two which ensures smooth daily operations.

Continuity Of Operations AAH has established a recovery plan for all essential infrastructure elements, systems, networks, and key business activities. The Company has a separate back-up server located at the PSX building in Karachi, and data is backed up on a daily basis.

Risk Management Framework The risk management framework revolves around the risk management committee headed by the Chairman Mr. Abid Ali Habib. To ensure operational efficiency and appraisal of internal controls, the Company has outsourced the internal audit department, which implements and monitors the policies and procedures of the Company. Formation of an independent risk management department would be a positive factor.

Regulatory Compliance Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures.

Business Sustainability

Business Risk The last five years have been challenging for the stock market investors. This subdued performance of the stock market has come after years of robust returns. In the long run, stocks have outperformed all other asset classes, although it is volatile in the short-term. There are mounting risks of inflationary pressures stemming from unprecedented commodity prices and some fiscal over-runs due to the recently announced relief measures by the Prime Minister in the form of fuel and power subsidies has also put the IMF program on risk. However, the current stock market valuations more than compensate for the risks highlighted. From fundamental perspective, market is trading at an attractive Price-to-Earnings (P/E) multiple. MSCI has also announced that Pakistan will become eligible for inclusion in the MSCI Frontier Markets Index as part of the May-22 Semi-Annual Index Review, which according to various estimates is likely to bring in a good amount of portfolio investment. This may improve the overall market volumes.

Business Profile AAH primarily provides the services of equity brokerage; however, the income from MTS, MFS and IPO distribution has provided diversity. AAH enjoys a market share of ~5% on volume traded basis. Going forward, AAH intends to initiate the fixed income desk and also considering to acquire the underwriting license from SECP.

Revenue And Profitability Analysis AAH earned commission from equity brokerage amounting to ~PKR 101mln for FY21 (FY20: ~PKR 52mln). While the gains emanating from proprietary book have significantly supported the bottom line. The profit-after-tax stood at ~PKR 410mln for FY21 (FY20: ~PKR 3mln).

Financial Sustainability

Credit Risk AAH has formulated KYC/CDD policies to assess the clients creditworthiness. Client risk profile with respect to the financial position is also maintained. Credit is allowed up to 35% on margin in cash or cash equivalent. Risk control parameters are inbuilt in the system preventing the clients from taking further positions. At end-Jun'21, the trade debtors exceeding 5 days were ~12% of the total trade receivables.

Market Risk AAH is actively running a proprietary book which exposes AAH to Market Risk. However, as part of the investment strategy the management reallocates the funds from equity towards fixed income based on market outlook. This is also evident from the fact that short-term investments have reduced from ~PKR 844mln at end-Jun'20 to ~PKR 466mln at end-Jun'21.

Liquidity Profile AAH has reported current assets of ~PKR 1,223mln for FY21 as compared to current liabilities of ~PKR 259mln resulting in a strong liquidity profile. AAH has also made arrangement with different banks for short-term running finance in case if any liquidity need arises.

Financial Risk AAH has a leverage free capital structure while the short-term borrowings are being utilized to fund the exposure margin requirements. The Net Capital Balance stood at ~PKR 786mln at end-Dec'21 depicting a strong capitalization. AAH's equity base increased to ~PKR 986mln at end-Jun'21 (Jun'20: ~PKR 577mln) mainly due to gains on short-term investments.



PKR mln

Aba Ali Habib (Pvt.) Ltd
Private Limited

Dec-21	Jun-21	Jun-20	Jun-19
6M	12M	12M	12M

A BALANCE SHEET

1	Finances	869	318	24	173
2	Investments	241	475	853	590
3	Other Earning Assets	9	87	3	2
4	Non-Earning Assets	249	365	269	239
5	Non-Performing Finances-net	-	-	-	-
	Total Assets	1,368	1,245	1,149	1,004
6	Funding	99	37	420	223
7	Other Liabilities (Non-Interest Bearing)	168	221	153	207
	Total Liabilities	268	259	573	430
	Equity	1,100	986	577	574

B INCOME STATEMENT

1	Fee Based Income	65	117	76	87
2	Operating Expenses	(50)	(101)	(73)	(71)
3	Non Fee Based Income	103	420	18	(61)
	Total Opearting Income/(Loss)	118	437	20	(46)
4	Financial Charges	(4)	(20)	(15)	(17)
	Pre-Tax Profit	114	417	5	(63)
5	Taxes	-	(7)	(3)	(2)
	Profit After Tax	114	410	3	(65)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Opearting Income/(Loss)	3.5%	4.5%	73.5%	-37.8%
Return on Equity (ROE)	55.9%	197.9%	0.6%	-2.6%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	80.4%	79.2%	50.2%	57.2%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	27.66	1.90	0.92	-0.60

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	18.1%	48.1%	74.1%	62.5%
Liquid Assets / Trade Related Liabilities	282.1%	668.6%	688.2%	1474.9%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	7.7%	104.6%	1.4%	2.1%
Equity Instruments / Investments	100.0%	100.0%	100.0%	100.0%

Broker Management Rating

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

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.

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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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- (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)

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- (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.
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- (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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