



The Pakistan Credit Rating Agency Limited

Rating Report

Aba Ali Habib Securities (Pvt.) Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
15-Mar-2024	BFR 2	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	AAH is primarily owned by Mr. Aba Ali Habib with a shareholding of ~99.99%, he has been associated with the Capital Markets for over 40 years, and has diversified experience in the field of equity brokerage.
Governance	The Company boasts a good governance structure with a six -member board, three of whom are executive and three are non-executive. The governance framework may be enhanced further with the induction of an independent director.
Management and Client Services	AAH has a lean organizational structure with all the required departments in place such as, research department, internal audit, compliance and risk management department. An experienced and qualified management team provides comfort to the rating. Client services are considered adequate with online trading and research reports present.
Internal Controls and Regulatory Compliance	AAH has a strong internal control environment, backed by outsourced internal audit services, and the active involvement of audit and risk management committees. A dedicated compliance head ensures effective compliance reporting.
Business Sustainability	AAH's topline is concentrated to equity brokerage; however, there is diversity present in the form of MFS & MTS. During 1HFY24, the company earned ~PKR 93mln (SPLY: ~PKR 90mln) as operating revenue, with a profit after tax of ~PKR 309mln (SPLY: ~PKR 56mln).
Financial Sustainability	A low-leveraged capital structure provides support to the rating. AAH has a strong equity base of ~PKR1,362mln at end-Dec'23.

Key Rating Drivers

The brokerage industry exhibited a notable performance during 1HFY24 based on renewed investor interest. AAH is planning to diversify its geographical expansion to improve retail clientele and enhance its market share. The management also intends to improve the technological structure for swift on-boarding of retail clientele. Moving forward, the materialization of planned revenue and geographical diversification is important for the rating . Maintenance and improvement of market share and sustainability and growth in revenue and profitability remain vital. Meanwhile, it is imperative to uphold robust internal controls, retention of key management personnel, and diligently monitors risks.

Disclosure

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

Profile

Background Aba Ali Habib Securities (Pvt.) Limited ("AAH" or "The Company") is a TREC holder of Pakistan Stock Exchange and a Member of Pakistan Mercantile Exchange Limited. The Company has been operating since 1970 and was incorporated under the "Companies Ordinance 1984" in 1996 as a Private Limited Company. The Company is registered with the Securities & Exchange Commission of Pakistan (SECP) under Securities Brokers (Licensing and Operations) Regulations 2016.

Operations The Company's service offering includes equity brokerage, commodity brokerage and research. The clientele of the Company is segmented into three categories: i) HNWI's ii) Institutions/Corporates, and iii) Retail.

Ownership

Ownership Structure The Company is primarily owned by a single family. The majority shares are owned by Mr. Aba Ali Habib who owns ~99.998% of the ownership.

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 three 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 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'23. AAH has also outsourced its internal audit department to Afras & Co.

Management And Client Services

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 reporting to the Board Audit Committee.

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.

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 infrastructures 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.

Internal Controls And Regulatory Compliance

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 monitor 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

Operating Environment The brokerage industry faced extremely low years during FY22 and FY23 due to limited investor interest. High interest rates and crippling inflation resulted in investors opting for safer fixed income returns instead of the riskier equities markets. The trend continued during 1HFY23; however, 2HFY23 experienced a surge in investors interest, pushing the KSE-100 index to historic high. The 1HFY24 is expected to stabilize in terms of market volumes and the index trading between the 60k and 70k point range , with expectations 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 remain on the Government after recent elections to provide answers to economic stability . Moreover, continued support from the IMF remain critical.

Performance AAH primarily provides the services of equity brokerage; however, the income from MTS, MFS and IPO distribution has provided diversity. Going forward, AAH intends to initiate the fixed income desk. The revenue from equity brokerage has increased to ~PKR 39mln for 1HFY24 as compared to a revenue of ~PKR 34mln in 1HFY23. The rise in revenue aligns with the increase in trading volumes at the exchange. However, the income from MTS/MFS and dividend income has provided support with a contribution of ~PKR 38mln and ~PKR 16mln respectively. The administrative expenses have declined in 1HFY24 to stand at ~PKR 37mln as compared to ~PKR 40mln in 1HFY23. AAH earned a net profit of ~PKR 309mln in 1HFY24 as compared to a net profit of ~PKR 56mln in 1HFY23.

Strategy Going forward, the Company has planned to build its retail client base for which the Company is considering to enhance its geographical diversification with facilitation centers and new branches.

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.

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.

Liquidity Risk AAH has reported current assets of ~PKR 1,954mln for 1HFY24 as compared to current liabilities of ~PKR 611mln 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.

Capitalization AAH has a leverage free capital structure while the short-term borrowings are being utilized to fund the exposure margin requirements. AAH's equity stood at ~PKR 1,362mln at end-Dec'23 as compared to equity of ~PKR 1,053mln at end-Jun'23..

PKR mln

Aba Ali Habib Securities (Pvt.) Limited	Dec-23	Jun-23	Jun-22	Jun-21
	6M	12M	12M	12M

A BALANCE SHEET

1 Finances	346	70	326	318
2 Investments	1,152	868	580	475
3 Other Earning Assets	26	6	4	87
4 Non-Earning Assets	450	328	251	365
5 Non-Performing Finances-net	-	-	-	-
Total Assets	1,974	1,273	1,162	1,245
6 Funding	456	132	97	127
7 Other Liabilities (Non-Interest Bearing)	155	67	96	132
Total Liabilities	611	199	193	259
Equity	1,362	1,074	968	986

B INCOME STATEMENT

1 Fee Based Income	76	70	108	114
2 Operating Expenses	(37)	(64)	(90)	(101)
3 Non Fee Based Income	275	122	(23)	420
Total Operating Income/(Loss)	315	128	(5)	434
4 Financial Charges	(5)	(19)	(12)	(20)
Pre-Tax Profit	309	109	(17)	414
5 Taxes	-	(3)	(0)	(7)
Profit After Tax	309	106	(18)	407

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	405.1%	155.2%	-16.1%	361.5%
EBITDA/ Revenue	412.1%	184.3%	-4.8%	380.5%
Profit / (Loss) Before Interest & Taxes / Total Assets	15.9%	10.0%	-0.4%	34.8%

2 Financial Sustainability

Total Investments / Equity	84.6%	80.8%	59.9%	48.1%
NCB / Equity	68.0%	68.8%	75.7%	74.3%
LCB/ Total Equity	68.0%	66.8%	97.7%	95.9%
(Cash & Cash Equivalents + Government Securities) / Total Assets	17.0%	15.5%	9.9%	25.2%
Total Debt / Equity	33.5%	12.2%	10.1%	3.8%

Broker Fiduciary Rating Scale & Definitions

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

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

<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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(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)

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- 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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- (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).
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)
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- (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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