

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

## RATING REPORT

### Arif Habib Limited

**REPORT DATE:**

29 June, 2015

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	AA-	A-1
Rating Outlook	Stable	
Rating Date	June 24, 2015	

#### COMPANY INFORMATION

Incorporated in 2004

External auditors: **Rehman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants**

Public Joint Stock Company

Chairman of the Board: **Mr. Zafar Alam**

Key Shareholders (with stake 5% or more):

Chief Executive Officer: **Mr. Muhammad Shahid Ali Habib**

Arif Habib Corporation Limited – 69%

#### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (May 2015)

<http://www.jcrvis.com.pk/Images/Securities%20methodology%201%20-2015.pdf>

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## Arif Habib Limited

### OVERVIEW OF THE INSTITUTION

AHL is a public listed company incorporated in 2004 in Pakistan under the Companies Ordinance, 1984. The shares of the company are quoted on the Islamabad, Karachi and Lahore stock exchanges of Pakistan. Presently, Arif Habib Corporation Limited (AHCL) has a majority shareholding of 69% in AHL while the remaining 31% shares are held by the general public.

### RATING RATIONALE

Arif Habib Limited (AHL) is one of the largest brokerage and financial services company with net worth of Rs. 2.36b and engaged in the provision of equity trading, corporate finance/advisory, debt capital market, research, money market and forex brokerage services. The assigned ratings take into account the sponsor profile of AHL, with majority stake held by Arif Habib Corporation Limited. The sponsor is a holding company of Arif Habib Group, which is one of the leading business groups of Pakistan - it owns significant interests in fertilizer, securities brokerage, cement, steel, real estate development and mutual fund sectors.

Over the years, the company has established significant franchise. Senior management includes individuals with in-depth market knowledge and experience in their relevant field. With the company having been able to secure advisory mandates under the government's privatization program, its market presence has enhanced further in recent times.

Within the brokerage business, the company's clientele comprises international and domestic institutions in addition to which the company generates a sizeable amount of its revenues through retail clients. As institutional clients are restricted by a per broker limit of 10%, AHL does not anticipate significant growth in the aforementioned segment. The company is however seeking to increase its retail business by promoting the online trading platform and provide increased personalized trading advice and assistance. Moreover, AHL also envisages growth to come from international clientele which it has been actively targeting recently.

The retail clients are offered margin finance facility; in recent period, the level of trade debts has increased notably. These trade debts have been primarily financed through banking lines which has led to an increase in the gearing ratio on a timeline basis (9MFY15: 1.26; FY14: 1.18; FY13: 0.84). As per internal policy developed recently, gearing has been capped at 1x, and the currently higher level will be regularized shortly. Regular margin maintenance of client's positions is necessary to ensure timely collection of outstanding receivables; the company maintains a minimum of 30% margins or VaR whichever is higher against retail clients. In case of client default, credit risk can translate into market risk on books.

Over the long term, AHL is primarily envisioned as an investment/advisory arm of the Group with on/off balance sheet exposures to be managed prudently in line with policies. Policies for proprietary book and underwriting have been drawn up and are in the process of being approved by the Board of Directors; these include per party and aggregate exposure limit of 0.35x and 1x of the company's own equity for underwriting exposures. In addition to this, the company will not utilize leveraging for financing its proprietary book. This will ensure that market risk, which is sizeable by virtue of the company's proprietary book, does not affect the company's repayment capacity.

AHL's recent increase in profitability has been contributed through all the business functions of the company. Significant amount of support to the profitability has also been provided by gains booked on AHL's own investments. Profitability of the company will remain largely dependent on capital market activity in addition to its ability to retain existing clientele and enhance penetration in the retail segment. The company is also actively looking to enhance its international brokerage business.

<b>FINANCIAL SUMMARY (amounts in PKR millions)</b>			<b>Appendix II</b>
<b><u>BALANCE SHEET</u></b>	<b>31-Mar-15</b>	<b>30-Jun-14</b>	<b>30-Jun-13</b>
Trade Debts	2,296	309	556
Investments	3,063	2,816	2,391
Cash and Bank balances	276	169	407
<b>Total Assets</b>	<b>6,256</b>	<b>4,771</b>	<b>3,617</b>
Trade and Other Payables	762	313	815
Short Term running finance	2,972	2,381	1,125
Net Worth	2,360	2,012	1,343
<b><u>INCOME STATEMENT</u></b>	<b>31-Mar-15</b>	<b>30-Jun-14</b>	<b>30-Jun-13</b>
Brokerage and Commission Income	207	266	125
Administrative Expenses	188	217	199
Finance Costs	185	358	180
Profit Before Tax	755	851	401
Profit After Tax	623	819	382
<b><u>RATIO ANALYSIS</u></b>	<b>31-Mar-15</b>	<b>30-Jun-14</b>	<b>30-Jun-13</b>
Market Share (Share Turnover) (%)	6.41%	6.59%	5.69%
Commission Income / Turnover (Paisa/Share)	1.76	1.89	1.68
Liquid Assets to Total Liabilities	43%	100%	52%
Liquid Assets to Total Assets	27%	58%	33%
Debt Leverage	1.65	1.37	1.69
Gearing	1.26	1.18	0.84
Efficiency (%)	24%	25%	48%
ROAA (%)	11%	20%	11%
ROAE (%)	29%	49%	31%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

Medium to Long-Term

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

Short-Term

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES		Appendix IV			
<b>Name of Rated Entity</b>	Arif Habib Limited				
<b>Sector</b>	Brokerage				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	24-Jun-15	AA-	A-1	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
<b>Probability of Default</b>	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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