

RATING REPORT

Arif Habib Limited

REPORT DATE:

November 29, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A-1	AA-	A-1
Rating Outlook	Stable		Stable	
Rating Date	Nov 29, 2016		Jun 26, 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 – 73.3%	
General Public (Local & Foreign) – 21.6%	

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>

Arif Habib Limited

OVERVIEW OF
THE INSTITUTION

Arif Habib Limited (AHL) was incorporated in 2004 as a public joint stock company under the Companies Ordinance, 1984. AHL is registered with Securities & Exchange Commission of Pakistan (SECP) and holds Trading Rights Entitlement Certificate (TREC) granted by Pakistan Stock Exchange (PSX) Limited.

RATING RATIONALE

Arif Habib Limited (AHL) is engaged in provision of equity brokerage, fixed & and interbank foreign exchange along with corporate advisory services. Head office of the company is situated in Karachi.

During period under review, turnover was witnessed at key senior management positions. Position of Chief Financial Officer (CFO) & Company Secretary and departmental heads of research, compliance, internal audit & risk management and corporate advisory witnessed turnover; these vacancies were timely filled. The new CFO was previously associated with AHCL. Remaining functional heads were promoted internally.

Rating Drivers:

- AHL is a subsidiary of Arif Habib Corporation Limited (AHCL), which holds 73.3% (FY15: 69.0%) stake in the organization. AHCL owns significant interests in fertilizers, securities & commodities brokerage, corporate advisory, asset management, cement, steel, wind power and real estate development sectors. As at end-FY16, AHCL had net worth of Rs. 20.6b (FY15: Rs. 19.8b) and balance sheet footing amounting to Rs. 30.5b (FY15: Rs. 33.7b).
- Board of Directors includes members with experience in the financial services sector. Barring resignation of one director who was subsequently replaced, there was no change in Board composition. Two independent directors are present on the Board. Senior management comprises experienced professionals.
- Assigned ratings incorporate adequate control framework of the company. An independent internal audit function is in place. Moreover, board approved underwriting and investment policies have been implemented. The company underwrote numerous transactions during the period under review.
- Proprietary book of AHL more than doubled to Rs. 3.3b (FY15: Rs. 1.5b) during FY16. Given the sizeable amount of equity investments, long and short term investments in relation to total equity exceeded the benchmark level of 1.0x from July 2015 to June 2016. As a result, debt leverage and gearing increased to 1.1x (FY15: 0.5x) and 0.7x (FY15: 0.2x) respectively. Investments have been financed mainly by debt with minimal contribution from equity; however, additional investments have been undertaken in associates. Thus, liquid assets to total liabilities have declined on timeline basis. This may constrain underwriting capacity of the company, going forward.
- Profitability of the company depicted decline during FY16 largely due to absence of a sizeable capital gain on sale of investments vis-à-vis preceding two fiscal years. Competitive pricing of commission rates, on local and foreign trades, led to a reduction in equity brokerage income, although value and volumes were higher in the latter. This was followed by a subsequent reduction in commission expense paid to agents. Going forward, the company seeks to enhance its top line through expansion of high net worth individuals (HNWI) segment.

Outlook:

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 HNWI segment. This, along with consolidation of corporate advisory business would be the driver for core earnings. The company needs to have a more robust internal control framework to detect and withhold benchmark breaches. Going forward, ratings would be dependent upon such functional framework being present.

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix I
<u>BALANCE SHEET</u>			
	30-Jun-16	30-Jun-15	30-Jun-14
Trade Debts	618.6	537.4	309.1
Long Term Investments	741.3	721.0	487.5
Short Term Investments	3,294.3	1,500.9	2,328.1
Cash and Bank balances	306.2	495.6	169.0
Total Assets	5,563.3	4,034.7	4,770.9
Trade & Other Payables	872.4	569.5	313.0
Long Term Loans	-	-	-
Short Term Loans - Secured	1,880.7	573.7	2,381.1
Total Liabilities	2,857.8	1,353.7	2,758.9
Total Equity	2,705.5	2,681.0	2,012.1
<u>INCOME STATEMENT</u>			
	30-Jun-16	30-Jun-15	30-Jun-14
Equity Brokerage Income	277.2	323.1	266.1
Capital Gain/(Loss) on Sale of Investments	(0.5)	1,148.0	558.5
Advisory Income	252.1	256.2	134.0
Other Income	145.6	56.9	97.8
Operating Revenue	652.6	636.2	491.5
Total Revenue	898.6	1,715.1	1,337.9
Administrative Expenses	267.9	300.2	217.0
Finance Cost	165.9	233.7	358.2
Profit Before Tax	456.0	1,145.0	850.5
Profit After Tax	409.5	928.5	818.6
<u>RATIO ANALYSIS</u>			
	30-Jun-16	30-Jun-15	30-Jun-14
Market Share (Share Turnover) (%)	9.2%	6.5%	6.6%
Commission Income / Turnover (Paisa/Share)	3.28	4.96	4.04
Liquid Assets to Total Liabilities (%)	39.8%	85.6%	100.3%
Liquid Assets to Total Assets (%)	20.4%	28.7%	58.0%
Debt Leverage (x)	1.06	0.50	1.37
Gearing (x)	0.70	0.21	1.18
Efficiency (%)	60.8%	75.8%	113.6%
ROAA (%)	8.5%	21.1%	19.5%
ROAE (%)	15.2%	39.6%	48.8%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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

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

(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

'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 III			
Name of Rated Entity	Arif Habib Limited				
Sector	Brokerage				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	29-Nov-16	AA-	A-1	Stable	Reaffirmed
	24-Jun-15	AA-	A-1	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	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.				
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