

RATING REPORT

Arif Habib Limited

REPORT DATE:

November 24, 2017

RATING ANALYSTS:

Jazib Ahmed, CFA
jazib.ahmed@jcrvis.com.pk

Narendar Shankar Lal
narendar.shankar@jcrvis.com.pk

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 24, 2017		Nov 29, 2016	

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 – 65.5%

General Public (Local & Foreign) – 22.0%

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	RATING RATIONALE
<p>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.</p> <p>Profile of Chairman</p> <p>Mr. Zafar Alam is a Non-Executive Director & Master’s degree holder in Nuclear Physics and has over 32 years’ experience in investment banking encompassing Origination, Trading, Sales and Asset Management in various financial centers around the globe. Mr. Zafar has a diverse experience across geographies and various aspects of finance, having worked in London, Singapore, Hong Kong and Dubai in Equities, Fixed Income and Asset Management.</p> <p>Profile of CEO</p> <p>Mr. Shahid Ali Habib carries a proven track record of establishing successful business organizations and turning around ventures into vibrant units. He has over 20 years of experience in the fields of Securities Brokerage, Banking, Asset Management, Corporate Finance and Investment Banking. He has served in leading positions at top local at international institutions.</p>	<p>Arif Habib Limited (AHL) is engaged in provision of equity and money market brokerage, interbank foreign exchange and corporate advisory services. Head office of the company is situated in Karachi. The company caters to both local and foreign clientele. Over the years, the company has established significant franchise and remains market leader in advisory services.</p> <p>Rating Drivers</p> <p>Sponsor Profile: AHL is a subsidiary of Arif Habib Corporation Limited (AHCL), which held 65.5% (FY16: 73.3%) stake in the company as at end-FY17. AHCL has sizeable shareholding in many different companies operating in diverse sectors such as fertilizers, securities & commodities brokerage, corporate advisory, asset management, cement, steel, wind power and real estate development sectors. Financial strength of AHCL is signified by its net worth of Rs. 30.5b (FY16: Rs. 29.1b) as at end-FY17.</p> <p>Corporate Governance: Board of directors at AHL includes members carrying vast experience in the financial services sector. No change was witnessed in the board composition during the outgoing year. Two independent directors are present on the board. Two committees, namely Board Audit Committee (BAC) and Board Human Resource & Remuneration Committee (BHRRC), are also present at board level in order to ensure effective oversight.</p> <p>Management team and control framework: Management team at AHL comprises seasoned professionals with considerable financial services sector experience. Three changes were observed in the senior management team during the outgoing year. Ratings also incorporate adequate control framework implemented at the company. Board approved underwriting and investment policies are present. However, following board approvals, certain breaches in limits stipulated in the investment and underwriting policy were observed during the outgoing year. Going forward, compliance with these limits is important given the current rating levels.</p> <p>Profitability: Profitability of the company more than doubled in FY17 vis-a-vis the preceding year. This increase was achieved primarily on the back of increase in top-line, which includes brokerage revenue, advisory and consultancy fees and dividend income. Capital gain on investments was also considerably higher in comparison to the preceding year. Growth in brokerage income was a function of higher value of shares traded. Consultancy and advisory fees recorded on account of execution greater number of mandates. Variation in total revenue stream of the company would remain given the volatility in the two major revenues drivers, which include capital gains and corporate advisory income. In line with growth in revenues, expenses also registered increase mainly due to higher compensation expenses. However, lower relative growth in expenses vis-à-vis the recurring revenue, efficiency ratio of the company improved to 55.4% (2016: 60.8%).</p> <p>Liquidity and Capitalization: Liquidity profile of the company improved on the back of growth in liquid assets. Proportion of investment in associates witnessed reduction in the outgoing year. Liquid assets are more than sufficient to account for current liabilities of the company. The quantum of liquid assets was low in 2016 due to sizeable investments in associates which are considered illiquid in nature. Debt leverage and gearing ratios have decreased in comparison to the preceding year. Maximum gearing level remained in line with the specified benchmarks. Equity of the company registered sizeable increase on account of internal capital generation. Net Capital Balance (NCB) remained considerably above the minimum regulatory requirement, thereby denoting an adequate solvency position.</p>

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix I
BALANCE SHEET	30-Jun-17	30-Jun-16	30-Jun-15
Trade Debts	74.8	582.3	537.4
Long Term Investments	541.5	741.3	721.0
Short Term Investments	3,263.8	3,294.3	1,500.9
Cash and Bank balances	832.8	306.2	495.6
Total Assets	5,693.0	5,563.3	4,034.7
Trade & Other Payables	870.0	407.0	569.5
Long Term Loans	-	-	-
Short Term Loans - Secured	1,408.0	1,880.7	573.7
Total Liabilities	2,491.2	2,857.8	1,353.7
Total Equity	3,201.1	2,705.5	2,681.0
INCOME STATEMENT	30-Jun-17	30-Jun-16	30-Jun-15
Equity Brokerage Income	402.2	277.2	323.1
Capital Gain/(Loss) on Sale of Investments	895.2	(0.5)	1,148.0
Advisory Income	365.1	252.1	256.2
Other Income	262.7	146.3	56.9
Operating Revenue	855.8	652.6	636.2
Total Revenue	1,673.2	898.6	1,715.1
Administrative Expenses	386.3	267.9	300.2
Finance Cost	138.5	165.9	233.7
Profit Before Tax	1,140.9	456.0	1,145.0
Profit After Tax	880.5	409.5	928.5
RATIO ANALYSIS	30-Jun-17	30-Jun-16	30-Jun-15
Market Share (Share Turnover) (%)	6.8%	9.2%	6.5%
Commission Income / Turnover (Paisa/Share)	5.4	3.9	5.0
Liquid Assets to Total Liabilities (%)	135.4%	39.8%	85.6%
Liquid Assets to Total Assets (%)	59.3%	20.4%	28.7%
Leverage (x)	0.78	1.06	0.50
Gearing (x)	0.44	0.70	0.21
Efficiency (%)	55.4%	60.8%	75.8%
ROAA (%)	16.1%	8.5%	21.1%
ROAE (%)	29.9%	15.2%	39.6%

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

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

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.

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				
	24-Nov-17	AA-	A-1	Stable	Reaffirmed
	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.				
Probability of Default	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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2017 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				