



The Pakistan Credit Rating Agency Limited

Rating Report

Arif Habib Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
13-Dec-2024	BFR 1	Stable	Maintain	-
15-Dec-2023	BFR 1	Stable	Maintain	-
16-Dec-2022	BFR 1	Stable	Maintain	-
17-Dec-2021	BFR 1	Stable	Maintain	-
29-Sep-2021	BFR 1	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	The assigned rating takes into account the Company's affiliation with Arif Habib Group, one of the preeminent conglomerates in the country. AHL is primarily owned by Arif Habib Corporation (~72.92%) while the general public holds ~27.08% of shares.
Governance	The organization maintains a robust governance framework, consisting of seven directors, including two independent directors and four non-executive directors. The board is chaired by Mr. Zafar Alam, an independent director. Additionally, the committees of the board are chaired by independent directors, further enhancing oversight and accountability.
Management and Client Services	The management team consists of experienced professionals, with well-defined roles and departmental structure. The Company has strong client services supported by a customer-centric approach.
Internal Controls and Regulatory Compliance	AHL maintains a strong regulatory framework, supported by an in-house internal audit department that reports directly to the Board's Audit Committee. Additionally, dedicated departments for Compliance and Risk Management further strengthen AHL's control framework.
Business Sustainability	In FY24, the Company achieved an operating revenue of ~PKR 1,120mln, demonstrating a strong financial performance. Additionally, the Company reported a profit after tax of ~PKR 612mln, reflecting its continued commitment to sustainable growth and profitability.
Financial Sustainability	As of June 2024, AHL's leverage ratio stood at ~52%, reflecting a balanced financial structure. Additionally, the Company's equity stood at ~PKR 1,273mln at end Jun'24.

Key Rating Drivers

Arif Habib Limited ('AHL' or the 'Company') has a leading market presence in the brokerage space. The Company introduces innovative products and services for its customers on a regular basis, maintaining and improving its market share on a YoY basis. Moving forward, it is imperative from a ratings perspective to maintain topline growth, revenue diversification, and profitability. Moreover, retention of key management personnel and further diversification to resist market shocks remain critical.

Disclosure

Name of Rated Entity	Arif Habib 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	Hassan Ahmad Hassan.Ahmad@pacra.com +92-42-35869504

Profile

Background Arif Habib Limited (AHL) is a licensed TREC (Trading Right Entitlement Certificate) holder of the Pakistan Stock Exchange (PSX), and the Company was incorporated in 2004 under the Companies Act, 2017.

Operations Arif Habib is a premier brokerage and financial services firm engaged in equity trading, investment banking, money market, and securities research. The clientele of the Company is segmented into four categories i) HNWI's ii) Financial Institutions iii) Retail iv) Foreign Broker Dealers.

Ownership

Ownership Structure Arif Habib Corporation Limited (AHCL) is the major shareholder of AHL with 72.92% equity stake while the general public (local & foreign) holds 27.08% of the shares.

Stability Arif Habib Group (AHG) is one of the most prominent multi-sector conglomerates in Pakistan. Over the years, the group has established a strong track record of identifying and developing successful enterprises across a variety of industries. Association with such a prominent group also brings stability to the ownership structure.

Business Acumen The Arif Habib Group demonstrates exceptional business acumen through its strategic diversification across sectors like financial services, cement, real estate, and energy. Under the visionary leadership of Mr. Arif Habib, the group has consistently identified high-growth opportunities, maintained strong corporate governance, and focused on long-term sustainability, solidifying its position as one of Pakistan's leading conglomerates.

Financial Strength The un-consolidated profit after tax of Arif Habib Corporation Limited was reported at ~PKR 9,431mln during FY24 (SPLY: net loss of ~PKR 972mln). The equity increased to ~PKR 34,069mln during FY24 (SPLY: 20,469mln).

Governance

Board Structure The Board of Directors of Arif Habib Limited (AHL) is composed of seven members, including the Chief Executive Officer (CEO) and the Chairman. The Board is structured to include a balanced mix of executive and non-executive directors, ensuring effective governance and oversight. Specifically, there are four non-executive, two independent, and one executive director. The presence of independent directors strengthens the Company's oversight framework. Overall, the Board of AHL is structured to provide effective oversight, strategic guidance, and independent judgment, supporting the Company's long-term growth and success in Pakistan's dynamic financial sector.

Members' Profile Mr. Zafar Alam, the Chairman and independent director, possesses over 33 years of experience. Mr. Zafar holds a Master's degree in Nuclear Physics, and brings a unique blend of global leadership, innovative vision and in-depth financial knowledge. Dr. Muhammad Sohail Salat, an independent director, is a qualified and highly reputed Pediatrician and Neonatologist who holds a Bachelor of Medicine and Bachelor of Surgery from Dow Medical College Karachi. Mr. Haroon Usman, a non-executive director, is a Fellow Member of the Institute of Cost and Management Accountants of Pakistan. He has over 50 years' experience in the fields of commerce, finance and industry.

Board Effectiveness There are three board committees in place – (i) Audit Committee (ii) Risk & Compliance Committee (iii) HR & Remuneration Committee. The board held four meetings during FY24, which were attended by the majority of the members. All committees are chaired by independent directors, boosting the governance framework.

Financial The external auditors of the Company are Rahman Sarfaraz Rahim Iqbal Rafiq, who have expressed an unqualified opinion on the financial statements for FY24. The firm is in the A Category of SBP's panel of auditors.

Management And Client Services

Organizational Structure Arif Habib has a multi-tier functional organization structure, consisting of the following departments, i) Finance, ii) Risk management & compliance, iii) IT, iv) Equity operations, v) Research, vi) International sales, vii) Online trading. The heads of the aforementioned departments report directly to the CEO. There is an independent Internal Audit Department reportable to the Audit Committee.

Management Team The Company has a team of seasoned professionals headed by Mr. Shahid Ali Habib, the CEO. Mr. Shahid Ali Habib brings over 25 years of experience in the fields of Securities Brokerage, Banking, Asset Management, and Investment Banking. Mr. Taha Siddiqui (CFO) is an ACCA member and has diversified experience in the fields of Financial, Manufacturing, Trading, and Services industries. The management staff turnover is low, reflecting stability in human resource management.

Client Servicing The Company offers multiple account opening mediums. Similarly, various channels, including a mobile app, are available to customers to execute and monitor their transactions. AHL provides up-to-date research facilities for clients, with dedicated traders to answer client queries.

Complaint Management A robust complaint management system has been established. Complaints can be made via email, SMS, and calls. Direct links for PSX and SECP are also available on the website to lodge complaints. The complaint resolution process is monitored weekly by the Company's Compliance Department.

Extent Of Automation / Integration Two database platforms are installed with full integration between the back and front office.

Continuity Of Operations AHL has developed a comprehensive disaster recovery plan to ensure business continuity in the event of a disaster. Critical operations are safeguarded through daily backups, including the backup of essential files from the Research, Corporate Finance, and Settlement Departments, which are stored securely on the File/Date Server.

Internal Controls And Regulatory Compliance

Risk Management Framework The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Risk & Compliance Committee is responsible for monitoring the areas that are deemed risky by the management, Internal or external auditors, as well as implementing the mandatory controls required to mitigate such risks. The Company has a coherent and effective risk management framework that allows it to efficiently manage exposure to risk.

Regulatory Compliance The Risk Management & Compliance Department is responsible for the continuous monitoring of controls and systems to ensure that all Company operations align with applicable policies, procedures, and regulatory requirements.

Business Sustainability

Operating Environment Low market P/E multiples, declining interest rates, and improving macro-economic indicators renewed investor confidence during FY24, resulting in high volumes for the brokerage industry. The trend has continued in FY25, with significant rate cuts providing the impetus to investors to shift their investments from fixed income to the equity market. The market P/E ratio is still considered low with ample room to improve, indicating that the brokerage industry shall continue to enjoy high volumes during FY25.

Performance Arif Habib Limited (AHL) reported a net profit of ~PKR 612mln for FY24, a substantial increase from ~PKR 185mln in FY23. The primary driver of this growth was a significant rise in equity brokerage revenue, which reached ~PKR 619mln, reflecting a 74% increase compared to the previous year (FY23: PKR 355mln). Additionally, the Company generated notable gains from the disposal of investments, amounting to ~PKR 374mln, a sharp turnaround from a loss of ~PKR 498mln in FY23. Furthermore, AHL reduced its finance costs to ~PKR 98mln in FY24, down from ~PKR 638mln in the previous year, marking an 84% decline. This reduction was primarily attributed to effective management of short-term borrowings.

Strategy AHL aims to focus on increasing trading volumes by strengthening relationships with both domestic and international clients, offering a premium suite of services. This includes innovative products, high-quality research, and strategic advisory services. Management expects a boost in activity from new listings, M&A, TFCs, Sukuks, and rights issues. The demerger of AHL will stabilize profitability, reduce market volatility, and enable greater focus on core business activities.

Financial Sustainability

Credit Risk The Company has implemented robust due diligence procedures, supplementing its KYC processes, to rigorously assess client creditworthiness. In addition to this, the Company has adopted comprehensive policies for leveraged products, establishing clear limits that are continuously monitored to ensure compliance. Furthermore, a detailed credit risk assessment framework is in place, outlining specific trading limits for various client categories. These limits are closely monitored and regularly reviewed to mitigate any risk of breach, ensuring prudent risk management practices. The Company remains committed to maintaining high standards of compliance and risk oversight, reinforcing its ability to safeguard its financial position while providing clients with secure and efficient services.

Market Risk The Company maintains proprietary and investment books in different asset classes. The proprietary book shows a significant decline to ~PKR 551mln as of June 2024, down from ~PKR 2,850mln as of June 2023. This substantial decrease is primarily attributed to the bifurcation of Arif Habib Limited (AHL) into two distinct segments, as part of the scheme of arrangement, the Demerged Undertaking was transferred to Arif Habib Corporation Limited (AHCL) effective from July 1, 2023. Despite the bifurcation, AHL's performance remains remarkable, further supported by the resilience of the market. AHL consistently monitors and assesses market trends to identify potential risks, allowing for proactive decision-making.

Liquidity Risk AHL has a strong liquidity profile. The Company's current assets were reported at ~PKR 5,395mln as compared to the current liabilities of ~PKR 4,363mln at end-Jun'24. The Company has put in place a rigorous liquidity management policy that defines limits of borrowings in order to prudently manage the liquidity needs of the Company.

Capitalization Arif Habib Limited finances its investments through short-term debt and internally generated cash flows. The Company's equity stood at ~PKR 1,273mln at end-Jun'24, indicating a significant decrease from ~PKR 4,994mln at end-Jun'23 (SPLY: ~PKR 5,201mln). This substantial decrease is primarily attributed to the bifurcation of Arif Habib Limited (AHL) into two distinct segments. As part of the scheme of arrangement, the Demerged Undertaking was transferred to Arif Habib Corporation Limited (AHCL) effective from July 1, 2023.

THE PAKISTAN CREDIT RATING AGENCY

Arif Habib Limited
PUBLIC LISTED LIMITED
FINANCIAL SUMMARY

FS PRINT MODE DISABLED

Jun-24 FY24 12M Audited	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited
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BALANCE SHEET

	Jun-24 FY24 12M Audited	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited
1 FINANCES	121.91	134.89	416.86
2 INVESTMENTS	658.07	4,423.80	7,011.39
3 OTHER EARNING ASSETS	33.24	33.38	143.08
4 NON-EARNING ASSETS	5,829.01	3,193.15	1,414.49
5 NON-PERFORMING FINANCES-net	(962.26)	-	(932.58)
TOTAL ASSETS	5,679.97	7,785.23	8,985.83
6 FUNDING	739.32	1,722.30	2,451.55
7 OTHER LIABILITIES (NON-INTEREST BEARING)	3,667.39	1,068.32	1,332.66
TOTAL LIABILITIES	4,406.72	2,790.62	3,784.21
TOTAL EQUITY	1,273.18	4,994.25	5,201.62

INCOME STATEMENT

INCOME

	Jun-24 FY24 12M Audited	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited
1 FEE BASED INCOME	1,438.38	1,128.15	938.20
2 OPERATING EXPENSES	(1,017.27)	(672.36)	(590.62)
3 NON-FEE BASED INCOME	442.24	518.92	819.71
TOTAL OPERATING INCOME (LOSS)	863.36	974.71	1,167.29
4 FINANCIAL CHARGES	(97.98)	(637.89)	(197.16)
PRE-TAX PROFIT	765.28	348.16	970.13
5 TAXES	(153.33)	(167.97)	(143.58)
PROFIT AFTER TAX	611.95	180.19	826.55

RATIOS

BUSINESS SUSTAINABILITY

	Jun-24 FY24 12M Audited	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited
1 PRE-TAX MARGIN	0.74	0.41	1.05
2 EBITDA MARGIN	0.88	1.16	1.26
3 EBIT RETURN ON ASSETS	0.17	0.12	0.13

FINANCIAL SUSTAINABILITY

	Jun-24 FY24 12M Audited	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited
1 TOTAL INVESTMENTS / EQUITY	0.52	0.89	1.35
2 LIQUID CAPITAL BALANCE (LCB) / EQUITY	0.52	0.36	0.41
3 (CASH, CASH EQUIVALENTS & GOVERNMENT SECURITIES) / TOTAL ASSETS	0.25	0.51	0.50
4 TOTAL DEBT / TOTAL ASSETS	0.29	0.21	0.27

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)

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)

Conduct of Business

- (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).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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 | 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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