



The Pakistan Credit Rating Agency Limited

Rating Report

Abbasi and Company (Pvt.) Limited | BMR

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Jun-2024	BMR2	-	Stable	Maintain	-
23-Jun-2023	BMR2	-	Stable	Maintain	-
24-Jun-2022	BMR2	-	Stable	Maintain	-
22-Sep-2021	BMR2	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Abbasi and Company (Pvt.) Limited ("ACPL" or the "Company") has a sustained position in the brokerage space, particularly in the Central and Northern regions of the country. The Brokerage industry is experiencing a boom in revenue since October 2023 due to renewed investor interest and attractive scrip valuations increasing volumes traded and pushing KSE-100 Index to historic highs. FY25 is expected to continue on with this trend; however, political stability and macro-economic conditions may play a key role in investor confidence. The assigned rating takes into account the strong business acumen of the sponsoring family. Ownership structure is considered stable with succession planning present within the family. Currently, ACPL has three executive directors on the Board, all being family members. The governance framework may be improved with an increase in the board size and addition of independent oversight. The rating incorporates a well-designed organizational structure with proper departmentalization and clearly defined responsibilities. The experienced management team efficiently manages business operations. Recently, ACPL has revamped its website and mobile application, by the name of 'Trade in', with a user-friendly interface to provide clients with the facility of online trading while a research department is also present. A dedicated customer support department resolves client grievances. The rating reflects a strong internal control environment supported by well-defined policies and an outsourced internal audit function. The presence of separate departments for risk management and compliance is a strengthening factor. Brokerage revenue has increased by ~92% during 9MFY24, with the Company earning ~PKR 50mln during the period (SPLY: ~PKR 26mln). There is limited diversification in the topline through MTS and commodity brokerage. Administrative and operating expenses are high, squeezing the net margins of the Company. During 9MFY24, ACPL earned ~PKR 0.4mln as net profit (SPLY: Loss of ~PKR 30mln). The Company has a zero-leveraged capital structure with the equity base standing at ~PKR 353mln at end-Mar'24.

Moving forward, diversification in revenue streams, customer base, and geographic reach is vital. Moreover, upholding of internal controls and growth in profitability remain important.

Disclosure

Name of Rated Entity	Abbasi and Company (Pvt.) Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Assessment Framework Broker Management Rating(Nov-23)
Related Research	Sector Study Brokerage & Securities(Jan-24)



The Pakistan Credit Rating Agency Limited

Brokerage & Securities

Ownership

Ownership Structure ACPL is primarily owned by individuals and it is not part of any foreign or local group. The majority of shares are owned by Mr. Syed Muhammad Ismail Abbasi who owns 69.7% of the ownership. The second highest ownership belongs to Ms. Yasmeen Ismail who owns 12.9% of the total shares.

Stability The Company's sponsors have a long-standing reputation in the market while their sizeable net worth is a positive factor for the ratings

Business Acumen The CEO, Mr. Syed Muhammad Ismail Abbasi possesses diversified experience in capital markets. He is serving on the Board of Directors of ACPL as a Chief Executive since its incorporation. He is also serving as chairperson of the Board. He holds a Master's Degree with distinction in Commerce from The University of Punjab and with over 35 years of experience in Pakistan's financial markets.

Financial Strength The sponsors have sizeable net worth and may inject capital in the Company with increasing quantum of operations. This also shows the sponsors' commitment in case of a financial need arises.

Governance

Board Structure ACPL has appointed three directors on board according all of whom are executive. The presence of Independent and Non-Executive directors would be an encouraging factor.

Members' Profile The board possesses the necessary skills and experience required for capital markets. The board members, on average, possess more than ~20 years of experience in the field of finance and capital markets.

Board Effectiveness To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee, HR Committee and Executive Risk Management Committee. The Audit Committee conducts meetings at minimum of once every quarter and the internal auditor reports are presented along with the findings.

Financial Transparency The external auditors of the Company are M/s Parker Randall – A.J.S and Company Chartered Accountants which are classified under the 'B' category of the State Bank of Pakistan panel of Auditors.

Management

Management Team The management of ACPL is well qualified and experienced to manage the Company's operations efficiently. The CFO Mr. Qamar Tariq is an IFMP member and a Certified Anti Money Laundering Professional. He is overseeing financial operations for more than 10 years.

Organizational Structure The Company has well developed organizational structure. The Company operates through ten departments namely i) Operations ii) Equity iii) Transaction iv) Accounts & Finance v) Research vi) IT vii) Business Support and Service viii) Human Resource ix) Compliance and x) Business Development. All of the departmental heads directly report to the CEO. However, Head of Internal Audit reports to the Board Audit Committee.

Client Servicing The Company 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. Furthermore, to further facilitate the customers a dedicated research department, trading facility, and a separate customer service department is also present.

Complaint Management A complaint box has been placed in the office premise while complaints can also reach the Company through call, email, website and by post. A designated officer has been assigned the responsibility of handling and rectification of complaints.

Extent Of Automation / Integration Two database platforms are installed with full integration between back and front office. The system incorporates primary and secondary level protection. ACPL is in usual practice of daily and weekly backups.

Continuity Of Operations ACPL has established a recovery plan for all essential infrastructure elements, systems, networks, and key business activities. The Company has assessed the possibility of potential disaster or emergency and has defined a range of parameters to cater these risks.

Risk Management Framework ACPL has placed a separate resource specifically for risk management. Moreover, to ensure independent insight an independent Internal Auditor has been made part of the Risk Management Committee, thereby removing any conflict of interest and ensuring independence

Regulatory Compliance Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures. Research analyst policy has also been formulated.

Business Sustainability

Business Risk Since Oct'23, the KSE-100 Index has experienced a surge in investor interest, with the index breaching historic high levels continuously and breaching the 75k mark for the first-time during May'24. The market P/E ratio is still considerably low and the index is expected to grow further. Of particular note is the decision of the country's policy rate, and the expected rate cut at the start of FY25 shall give rise to fresh buying as investors shift the focus from fixed-income to the equity market. While FY24 shall have good results for the brokerage industry, political and economic stability are key factors to uphold investor interest during FY25.

Business Profile The Company mainly provides the services of equity brokerage while also strengthening its presence in the commodity brokerage segment. The management is further considering to enhance its outreach in the retail segment for which it has recently revamped its mobile trading app with a user-friendly interface. ACPL also has a long-term plan to initiate a corporate finance and investment advisory department

Revenue And Profitability Analysis The Company's operating revenue is mainly concentrated on equity brokerage. During, the 9MFY24 company reported operating revenue of ~PKR 50mln, inclined by 104% when compared with 9MFY23 at 22mln. Additionally, company reported operating revenue of 33mln in 1HFY23 as compare to 17mln SPLY. The top line was impacted on account of uplift of market activity. The Company reported a net profit of ~PKR 0.4mln as compared to a loss of ~PKR 29mln in 9MFY23. The stats for 1HFY23 for net profit were 6mln as compare to net loss of 21mln. The profit incurred due to the incline in the operating revenue which is in line with the market trend.

Financial Sustainability

Credit Risk For the assessment of the client's credit worthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. The Company has also put in place different risk mitigation measures to determine the scope of the identification and verification requirements and ongoing monitoring based on the risks posed by particular customers by setting transaction limits for higher-risk Customers.

Market Risk ACPL has maintained a proprietary portfolio but the quantum of short-term investment is minimal; ~10% of the equity at end-Mar'24 and ~7.5% at end Dec'23. The Company has formalized a proprietary trading policy whereby limits have been defined to mitigate the risks, the compliance department will monitor the limits consistently and any breaches will be reported to the senior management.

Liquidity Profile At end-Mar'24 the current assets of the Company stood at ~PKR 320mln against the current liabilities of ~PKR 190mln. However, at end Dec'23, Current assets were 297mln as compare to 212mln at end Jun'23. The Company has an adequate liquidity profile.

Financial Risk The Company has an adequate capitalization level with Liquid Capital Balance (LCB) standing at ~PKR 69mln at end-Mar'24. The Company's equity stood at ~PKR 353mln at end Mar'24 as compare to 356mln at end Jun'23. The equity has declined by ~0.8% which could be attributable to the decline in fair value reserves during the period.