



The Pakistan Credit Rating Agency Limited

# MCB-ARIF HABIB SAVINGS & INVESTMENTS LIMITED (MCB-AH)

## ENTITY RATINGS REPORT

	<b>NEW [MAR-16]</b>	<b>INITIAL [MAR-15]</b>	<b>REPORT CONTENTS</b>
Long-term Rating	AA-	AA-	1. SUMMARY REPORT
Short-term Rating	A1+	A1+	2. FINANCIAL SUMMARY
Outlook	Stable	Stable	3. RATING SCALE
			4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

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FEBRUARY 2016

## PROFILE & GOVERNANCE

- MCB Arif Habib Savings & Investments Limited (MCBAH) incorporated in August 2000 and listed on the Pakistan Stock Exchange (PSX), MCBAH is a major player in the mutual fund industry of Pakistan.
- The major shareholders of MCBAH comprise: a) MCB Bank Limited (MCB) [51%], b) Arif Habib Corporation (30%), and c) Adamjee Insurance Company Limited (2%). The remaining stake in the company is held by general public and other institutional investors.
- MCBAH's eight members BoD comprise the company's CEO, two representatives from MCB, two representatives from AHG and three independent members. Mian Muhammad Mansha – Chairman MCB – serves as the Chairman on the board. Mr. Nasim Beg – a representative of AHG – acts as the executive vice chairman.

## ASSESSMENT

- During CY15, MCBAH showed slight increase in its AUM base. The AUMs increased by 7% during the mentioned period (Dec15:PKR48bln, Dec14:PKR45bln).
- MCBAH's AUM base remains moderately diversified with most of the funds having top10 unit holder concentration less than 50%.
- Further uptick in AUMS.

## STRATEGY

- Going forward, the management intends to launch an Exchange Traded Fund (ETF) to target foreign investors. The management remains focused to strengthen MCB AH's distribution network to make further inroads in the retail segment. The objective is to establish the AMC on unstained revenue stream.

## INVESTMENT

- MCBAH invests significant funds in its own mutual funds over and above the minimum fund size prescribed by the regulator. The market value of these funds forms 73% of equity at end-Dec15 (June15: 78%).
- The investment is classified as long-term (PKR 422mln) and short-term (PKR 670mln). The long term investments are made into Pension funds (Conventional and Islamic). The short-term investments are made in a money market fund and directly into government securities.

## CAPITAL

- MCB-AH was previously working with a debt-free capital structure. The company has taken running finance facility, which is obtained from the MCB Bank Limited which is not been utilized uptill now. Nevertheless, the company remains well capitalized and the management does not intend to add any debt to its capital structure.

## TECHNOLOGY & INVESTOR SERVICES

- MCBAH is committed towards continued up-gradation of its overall IT infrastructure. The company has developed an in-house unit holder accounting system which has been named 'Retrofit'. Retrofit contains interactive dashboards which provide real-time information to fund managers; facilitating investment decision making.

## RATING RATIONALE

The ratings reflect MCBAH's well-maintained franchise augmenting its relative positioning in a competitive market. A well-diversified fund slate alongwith a consistent growth in AUMs bodes well for the company's revenue stream. The increased contribution of retail investors benefitting through the company's iconic message 'Bachat Ka Doosra Naam' helps in providing sustainability to the core income. The company's experienced management and requisite systems are well placed to tap the growth opportunities in the mutual fund industry. Well guided TORs and prudent investment framework provide comfort against the management's plan to supplement company's income through debt funded investment. Sustained improvement in profitability lends more than adequate support to coverage's. The rating incorporates MCBAH's association with two prominent business conglomerates of Pakistan - particularly a leading bank, MCB Bank Limited.

## KEY RATING DRIVERS

The ratings are dependent on the company's ability to sustain its market standing by capitalizing on the self and group operating platform. Meanwhile, stability of the quality human resource, alongwith rationalization of the fund slate, would remain important. Achieving continuity in competitive fund performance is critical to ensure sustainability in the fee revenue.

## INDUSTRY SNAPSHOT

During CY15, the AMC industry observed a meager increase of 3% in its AUMs mainly led by the sluggish performance of capital markets. Resultantly, a slight decrease in the system share of equity funds was noticed during the period. Risk adverse investor sentiment and weak performance of the capital market provides resistance in the growth of industry AUM's. The transition of AUMs from money market towards income funds predominately government bond funds was an outcome of the prevailing interest rate environment.



## ASSET MANAGER

### Financial Information

#### **The Pakistan Credit Rating Agency Limited** **MCB-Arif Habib Savings & Investments Limited**

PKR mln

<b>BALANCE SHEET</b>	<b>30-Dec-15</b> <i>IHFY</i>	<b>30-Jun-14</b> <i>Annual</i>	<b>30-Jun-13</b> <i>Annual</i>
<i>Total Earning Assets</i>	1,158	966	878
<i>Non-Earning Assets</i>	904	641	534
<i>Total Assets</i>	<u>2,062</u>	<u>1,607</u>	<u>1,412</u>
<i>Total Other Liabilities</i>	574	254	139
<i>Total Equity</i>	1,488	1,354	1,273
<i>Total Liabilities &amp; Equity</i>	<u>2,062</u>	<u>1,607</u>	<u>1,412</u>
<b>PROFIT &amp; LOSS ACCOUNT</b>	<b>30-Dec-15</b>	<b>30-Jun-14</b>	<b>30-Jun-13</b>
<i>Fee-Based Income</i>	355	512	471
<i>Interest / Mark-up Income</i>	15	5	2
<i>Total Revenue</i>	386	586	538
<i>Operating Expenses</i>	(223)	(347)	(318)
<i>Net Income</i>	114	183	158
<b>RATIO ANALYSIS</b>	<b>30-Dec-15</b>	<b>30-Jun-14</b>	<b>30-Jun-13</b>
<i>ROE</i>	15.4%	14.0%	12.6%
<i>Fee Income / Total Revenue</i>	92.1%	87.3%	87.5%
<i>Cost-to-Total Revenue</i>	58%	59%	59%

**MCB-Arif Habib Savings & Investments Limited (MCBAH)**

December-15

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## STANDARD RATING SCALES & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
<b>AAA</b>  <b>AA+</b> <b>AA</b> <b>AA-</b>  <b>A+</b> <b>A</b> <b>A-</b>	<p><b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.</p> <p><b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p> <p><b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.</p>	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
<b>B+</b> <b>B</b> <b>B-</b>	<p><b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.</p>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>Very high credit risk.</b> “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.</p>	
<b>D</b>	<p>Obligations are currently in default.</p>	

### Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

### 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’.

### 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, a suspended rating should be considered withdrawn.

### Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

**Disclaimer:** PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



**Name of Issuer**  
**Sector**  
**Type of Relationship**  
**Purpose of the Rating**

MCB-Arif Habib Savings & Investments Limited  
 Asset Management - Entity  
 Solicited  
 Independent Risk Assessment

**Rating History**

Date	Long Term	Short Term	Outlook	Action
11-Mar-16	AA-	A1+	Stable	Maintain
12-Mar-15	AA-	A1+	Stable	Initial

**Related Criteria and Research**

Rating Methodology

Corporate Rating Methodology

**Rating Analysts**

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[Rating Team Statement](#)

**Rating Procedure**

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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**Surveillance**

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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[Probability of Default \(PD\)](#)

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](http://www.pacra.com)). However, actual transition of rating may not follow the pattern observed in the past