

RATING REPORT

Magnus Investment Advisors Limited

REPORT DATE:

February 17, 2020

RATING ANALYSTS:

Arsal Ayub, CFA

arsal.ayub@vis.com.pk

Muhammad Hamza Amir

hamza.amir@vis.com.pk

RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Medium to Long Term	Medium to Long Term
Management Quality	AM2+(IA)	AM2+(IA)
Rating Outlook	Stable	Stable
Outlook Date	February 11, '20	February 14th, '19

COMPANY INFORMATION

Incorporated in 2007	External auditors: KPMG Taseer Hadi & Co.
Non-Banking Finance Company	Chairman of the Board: Dr. Mohammad Nishat
	Chief Executive Officer: Mr. Nadeem Jeddy

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria <http://vis.com.pk/docs/MQR-Methodology-2015.pdf>

Magnus Investment Advisors Limited

OVERVIEW OF THE INSTITUTION

Magnus Investment Advisors Limited (MIAL) was incorporated in June 2007 as an unlisted public limited company, classified as an NBFC. The company has an Investment Advisory licence from SECP and specializes in providing investment management services to institutional clients and HNWI Individuals. Financial statements of Magnus for FY19 were audited by M/s KPMG Taseer Hadi & Co.

Profile of Chairman

Mr. Nishat is currently working as a Professor of Economics and Finance and Associate Dean of Business Administration, at IBA Karachi. At Magnus, Dr. Nishat is the Chairman of the Audit Committee, and an Independent Director. He holds a doctorate degree in Economics from the University of Auckland New Zealand, with a specialization in Finance.

Profile of CEO

Mr. Jeddy has 17 years of rich experience with Citigroup, where he worked in Corporate Banking in Pakistan and Indonesia, and eventually left the organization as Managing Director Mergers & Acquisitions group, in Hong Kong. In 2007, he became the founding CEO of Magnus Investments, and Chief Investment Officer (CIO) in 2008. Presently, he is serving both positions of CEO and CIO.

RATING RATIONALE

Established in 2007, Magnus Investment Advisors Limited (MIAL) specializes in providing investment advisory services, mainly to institutional clients, which include various domestic and multinational companies.

Key Rating drivers

Corporate Governance and Internal Controls

Overall organizational framework of the company is well defined wherein the structure is broadly segmented into two divisions; investment and operational management. Investment division is further segmented into Security Analysis (SA) & Portfolio Analysis (PA) functions. Both functions report to the CIO and actively contribute in the investment decision making process.

Conformity to regulatory requirements is sound wherein the company reports portfolio balance and composition on a monthly basis to the SECP. Moreover auto portfolio rebalancing triggers are inherent in the system which intimates any breach of defined limits. The investment committee overlooks the defined risk limits. Manuals for all key functions including risk management, finance, HR, compliance, portfolio management, security analysis and portfolio analysis are in place and are updated periodically. Guidelines related to employee trading remain stringent with no major change since last review. Priority of transactions (i.e. trade execution) is given to institutional clients over individual clients, which is conveyed to the clients beforehand in accordance with best practices.

Barring a casual vacancy at Board level, created by the resignation of a Board member, overall Board composition and reporting structure has remained similar. Dr. Mohammad Nishat, an independent director, is serving as the Chairman of the Board. Nevertheless, key person risk still exists, as key roles of CEO and CIO remain vested with Mr. Nadeem Jeddy. In the recent past, 2 senior management team members have also been offered cumulatively 5% of the company’s shareholding, which is viewed positively from a governance purview.

Funds and AUMs

During the period under review, MIAL signed up 5 new mandates (FY18: 3). Client attrition, during the period stood at 4, (FY18: 2).

Fund Performance

Fund performance has been affected by adverse equity market performance & rising interest rate environment. However, overall long term fund performance, of random sample of institutional clients reviewed, was indicative of an out performance vis-à-vis benchmark agreed with client. Review of the client feedback data was also indicative of strong client satisfaction.

Financial Profile

In line with a slower pace of growth in AUMs during FY19, growth in core income has receded (FY19: 7.1%; FY18: 20.8%). Given limited growth in expense base, efficiency of the company has remained at similar levels (FY19: 69.3%; FY18: 76.2%). However adverse movement in capital markets has deteriorated the company’s earning profile. Adjusting for the capital losses incurred on the investment portfolio during the year, which have been deducted from OCI, the Company’s profitability falls sharply. Despite the erosion in

In Rs. Mn	2017	2018	2019
PAT	30.7	19.5	37.9
Unrealized Gains/(losses)	19.1	5.9	(51.7)
Adjusted Profit	49.7	25.4	(13.8)
Adjusted ROAA	15.5%	6.9%	-3.5%
Adjusted ROAE	16.6%	7.7%	-4.2%

equity base, capitalization is considered adequate given minimal use of borrowing lines.

BALANCE SHEET (Unconsolidated)	30-Jun-17	30-Jun-18	30-Jun-19
Property and Equipment	77.2	73.8	89.2
Investments	188.6	234.2	225.9
Investment in subsidiaries	10.0	-	-
Cash and bank balances	18.4	22.8	2.6
Total Assets	343.6	393.1	383.6
Issued, Subscribed & Paid up Capital	119.0	119.0	125.3
Share Premium	51.4	51.5	51.5
Surplus on Revaluation of Available for Sale Investments	44.3	54.9	9.6
Accumulated Profit	104.5	112.5	136.5
Total Equity	319.3	337.8	322.8
INCOME STATEMENT (Unconsolidated)	30-Jun-17	30-Jun-18	30-Jun-19
Management Fee	117.2	142.8	152.6
Capital gain / (loss) on sale of investment	0.4	1.2	(0.1)
Total revenue	130.9	159.0	168.9
Administrative and operating expenses	84.8	119.4	115.5
Profit before taxation	46.9	31.8	53.5
Profit After Tax	30.7	19.5	37.9

MANAGEMENT QUALITY RATINGS**AM1:**

Asset manager exhibit Excellent management characteristics

AM2++, AM2+, AM2:

Asset manager exhibit Very Good management characteristics

AM3++, AM3+, AM3:

Asset manager exhibit Good management characteristics

AM4++, AM4+, AM4:

Asset manager exhibit Adequate management characteristics

AM5:

Asset manager exhibit Weak management characteristics

For harmony in notations, single plus (+) or double plus (++) have replaced notation of plus (+) or minus (-) to indicate the relative degree of strength within each category.

For companies undertaking Investment Advisory Services only, the Management Quality Rating Scale is appended with the suffix 'IA' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.

For companies undertaking REIT Management Services only, the Management Quality Rating Scale is appended with the suffix 'RMC' to distinguish it from other Management Quality Ratings outstanding by JCR-VIS.

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

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	Magnus Investment Advisors Limited			
Sector	Non-Banking Finance Company			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	Rating Date	Medium to Long Term	Rating Outlook	Rating Action
	02/11/2020	AM2+(IA)	Stable	Reaffirmed
	02/14/2019	AM2+(IA)	Stable	Upgrade
	10/24/2017	AM2(IA)	Positive	Maintained
	05/04/2016	AM2(IA)	Stable	Harmonized
	03/02/2016	AM2-(IA)	Stable	Reaffirmed
	02/26/2015	AM2-(IA)	Stable	Upgrade
	02/26/2015	AM3+(IA)	Stable	Harmonized
	07/16/2013	AM3+	Stable	Reaffirmed
	05/11/2012	AM3+	Stable	Reaffirmed
Instrument Structure	N/A			
Statement by the Rating Team	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	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, 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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.			
Due Diligence Meetings Conducted	Name	Designation	Date	
	Mr. Umair Aslam	Head – Portfolio Management	December 12, 2019	