

RATING REPORT

Magnus Investment Advisors Limited

REPORT DATE:

April 1, 2021

RATING ANALYSTS:

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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	April 1, '21	February 11, '20

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 FY20 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. 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, the company completed its 13th fiscal year in 2020. 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

Healthy growth in AUM's during the year, projected to continue over the rating horizon

- The AUMs of the MIAL have maintained a strong growth momentum.
- During FY20, the company signed three new mandates including two institutional and one private client.
- Going forward, growth in AUMs is expected to accelerate on account of a positive economic growth differential.

Portfolio returns have depicted steady performance in 2020

- MIAL's overall portfolio returns were notably better in 2020 despite the equity portfolio underperforming the KSE-100 benchmark index. The blue-chip companies (stable businesses, strong balance sheet and high dividends), where MIAL's equity portfolios are concentrated, underperformed whereas the highly leveraged cyclical companies outperformed the KSE 100 index in 2020.
- Returns on the fixed income component of the portfolio outperformed the approximate benchmarks in 2020.
- VIS will continue to track the portfolio returns performance, and long-term continuation of the same would be considered positively.

Comprehensive Organogram with sound corporate governance and professional management team

- **Organizational Structure:**
 - o The management composition of the firm is broadly segmented into two divisions; investment and non-investment. Investment division is further segmented into Security Analysis (SA), Portfolio Analysis (PA) and Portfolio Management (PM) departments. The PA and SA departments report to the CIO and actively contribute in the investment decision making process. SA function primarily is involved in research & shortlisting of equities and fixed income instruments (TFCs/Sukuk) while PA function is responsible for portfolio construction, asset allocation and tailoring of funds portfolio as per clients' requirements. The PM department executes client relationship management function in its entirety which includes periodic reporting, cash flow monitoring, portfolio rebalancing and performance reviews.
 - o The non-investment division is divided into four sub departments; Finance, Compliance, HR and the newly added Business Development (BD).
- There are documented policies in place for profit distribution between internal (employees) & external (shareholders) stakeholders. Since inception, accumulated profit distribution to employees stood at 2.4x of the dividend outflow to shareholders. The company also has an Employee Stock Ownership Plan (ESOP), under which cumulative employee ownership of the company increased from 5% to 10% in FY20.

- Employee continuity is considered adequate, as senior management attrition was very limited.
- The employees and directors have undergone corporate governance trainings to increase awareness.
- There is a Business Continuity & Disaster Recovery (BCDR) plan in place. In this regard, the management has an alternative office, where data backup is maintained. The company also adopted a cloud based backup solution from Microsoft to secure the data during pandemic period.
- The company previously had a qualified opinion from external auditors on account of capitalization of office premises, without requisite documentation. Nevertheless, given the depreciation of the same over the years, the qualification has been removed on account of not being material.
- During the year, Mr. Rehan Riaz has rejoined the Board of Directors. Moreover, Mrs. Fareeha Saifi has also joined the Board. Further, the company has obtained two new licenses to operate as REIT Management Company (RMC) and Private Equity and Venture Capital (PEVC).

Robust internal controls and compliance levels with strict guidelines related to employee trading

- 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.
- 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.

Financial profile remains healthy amid sizeable increase in management income with solid liquidity and capitalization levels

- In line with an increase in AUMs, the management income grew to Rs. 182.5mn in FY20 from 152.7mn in FY19. The concentration risk of the topline remained at almost similar level, with revenues from largest 3 clients comprising 37% of the company's revenue base for 2020 (2019: 38%).
- Consequently, Recurring income (Management + Investment + Dividend) clocked in at Rs. 196.7mn (FY19: 169.0mn). However, as recurring expenses (including operating and finance expense) grew in tandem with recurring income, efficiency ratio remained stable (FY20: 69.8%; FY19: 68.2%, FY18: 69.9%).
- Equity base of the company increased on account of growth in accumulated profits and right issuance of Rs.14.7mn during the year. Capitalization levels of the company remain comfortable, specifically in context of the company's unleveraged capital structure and the regulatory requirement. Liquid investments carried on balance sheet amounted to Rs. 194.6mn at end-FY20.

BALANCE SHEET (Unconsolidated)	30-Jun-18	30-Jun-19	30-Jun-20
Property and Equipment	73.8	89.2	174.7
Investments	224.1	225.9	153.3
Investment in subsidiaries	-	-	-
Cash and bank balances	22.8	2.6	41.3
Total Assets	393.0	383.6	452.0
Issued, Subscribed & Paid up Capital	119.0	125.3	140.0
Share Premium	51.4	51.5	51.5
Surplus on Revaluation of Available for Sale Investments	54.9	9.6	(0.4)
Accumulated Profit	112.4	136.5	190.3
Total Equity	337.8	322.8	381.4
INCOME STATEMENT (Unconsolidated)	30-Jun-18	30-Jun-19	30-Jun-20
Management Fee	142.8	152.7	182.5
Capital gain on sale of investment	1.2	(0.1)	(2.3)
Unrealized gain/loss in value of investment	-	-	-
Total revenue	159.0	168.9	194.4
Administrative and operating expenses	119.4	113.7	135.5
Profit before taxation	31.9	53.5	56.1
Profit after taxation	19.5	37.9	38.0

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
	04/01/2021	AM2+(IA)	Stable	Reaffirmed
	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.			
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Due Diligence Meetings Conducted	Name	Designation	Date	
	Mr. Umair Aslam	Head – Portfolio Management	January 8, 2021	