

RATING REPORT

Magnus Investments Limited

REPORT DATE:

April 19, 2023

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
	Medium to Long Term	Medium to Long Term
Rating Category		
Management Quality	AM2++(IA)	AM2+(IA)
Rating Outlook	Stable	Stable
Rating Action	Upgraded	Reaffirmed
Outlook Date	April 19, 2023	April 13, 2022

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
	Internal auditor: A.F. Ferguson & Co.

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria <https://docs.vis.com.pk/docs/MQR-Methodology-201808.pdf>

Magnus Investments Limited

OVERVIEW OF THE INSTITUTION

Magnus Investments Limited (MIL), formerly Magnus Investment Advisors Limited, was incorporated in June 2007 as an unlisted public limited company, classified as an NBFC. The Company has an Investment Advisory license from SECP and specializes in providing investment management services to institutional clients and HNWI Individuals.

Profile of Chairman

Mr. Nisbat 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

Headquartered in Karachi, Magnus Investments Limited ('MIL' or 'the Company'), formerly Magnus Investment Advisors Limited, has established a strong brand reputation in the market with an extensive track record of around 16 years in specialized investment advisory business. The client base comprises various local and multinational institutions. In the recent past, MIL obtained two new licenses to operate as REIT Management Company (RMC) and Private Equity and Venture Capital (PEVC); developments in this regard are underway.

Key Rating drivers:

AUMs have shown significant increase over time. The future business plan will be centered on the constant addition of new clients.

- The AUMs of the MIL have maintained a strong growth momentum.
- During FY22, the Company signed three new mandates including two institutional and one private client.
- Going forward, growth in AUMs is expected on addition of new clients along with increasing AUMs of existing mandates.

The portfolio's returns exceeded the benchmarks, and it's important to maintain this level of consistency for ratings perspective.

- Long-term portfolio returns of the funds are higher compared to established benchmarks on a timeline basis.
- A random sample review of institutional clients, indicates out-performance compared to benchmarks for both equity securities and fixed income instruments.
- The Company's equity strategy involves long-term investments, exposure in non-cyclical blue-chip stocks, and maintaining a balanced portfolio.
- VIS will continue to monitor the portfolio returns performance as it's important for ratings perspective.

The Company has a well-established organizational structure and a competent senior management team, which follows sound corporate governance practices.

Organizational Structure:

- o The management composition of the Company 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 listed fixed income instruments (TFCs/Sukuk) while PA function is responsible for portfolio construction, analysis in unlisted fixed income instruments, 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, Human Resource (HR) and added Business Development (BD).

- The Board of Directors (BoD) currently consists of 6 members, including 2 independent directors.
- There are 4 board level committees in place: Audit Committee, Investment Committee, Disciplinary Committee, and Sexual Harassment Committee.
- 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.

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

- MIL has a sound orientation towards transparency and compliance with regulatory requirements. The portfolio balance and composition are voluntarily reported to the SECP on a quarterly basis.
- The guidelines related to employee trading are stringent, and personal trading without prior written consent of the CIO is not allowed. No major changes have been made in the guidelines related to employee trading since the last review.
- The internal audit function is outsourced to a reputable firm, which adds to the control levels.
- The system has inherent auto portfolio rebalancing triggers that alert for any breach of defined limits. The investment committee oversees the defined risk limits.
- The priority of transactions (i.e. trade execution) is given to institutional clients over individual clients, which is conveyed to the clients through the documented policy in accordance with best practices.
- The quality of reporting to clients is comprehensive in nature, and the standardization of services is observed across clients.
- Quarterly reviews of client feedback data are indicative of strong client satisfaction.

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

- In line with an increase in AUMs, the management income grew to Rs. 257.5m in FY22 from 228.8m in FY21. The concentration risk of the topline remained at almost similar level, with revenues from largest 3 clients comprising 37.3% of the Company's revenue base for 2022 (2021: 36.2%).
- Consequently, recurring income (Management + Investment + Dividend) amounted to Rs. 282.9m (FY21: 246.8m). However, as recurring expenses (including operating and finance expense) grew in tandem with recurring income, efficiency ratio remained stable (FY22: 68.1%; FY21: 69.6%).
- Equity base of the Company increased on account of growth in accumulated profits and right issuance of Rs.8.2m as of Jun'22. 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. 271.9m at end-Jun'22.

Magnus Investments Limited

Financial Summary – Unconsolidated <i>(Figures in millions)</i>				Annexure I
<u>BALANCE SHEET</u>	30-Jun-19	30-Jun-20	30-Jun-21	30-Jun-22
Property and Equipment	89.2	174.7	195.3	264.5
Investments	225.9	153.3	231.1	251.2
Cash and bank balances	2.6	41.3	24.1	20.7
Total Assets	383.6	452.0	540.4	628.7
Issued, Subscribed & Paid up Capital	125.3	140.0	140.0	148.2
Share Premium	51.5	51.5	51.5	51.5
Surplus on Revaluation of Available for Sale Investments	9.6	(0.4)	34.8	12.3
Accumulated Profit	136.5	190.3	220.9	284.1
Total Equity	322.8	381.4	447.2	496.1
<u>INCOME STATEMENT</u>				
Management Fee	152.7	182.5	228.8	257.5
Investment Income	7.2	5.2	2.5	2.7
Dividend Income	9.2	8.9	15.5	22.7
Capital Gain on Sale of Investment	(0.1)	(2.3)	0.1	-
Total Revenue	168.9	194.4	247.1	285.5
Administrative & Operating Expenses	113.7	135.5	171.3	191.0
Profit Before Taxation	53.5	56.1	75.0	91.2
Profit After Taxation	37.9	38.0	55.2	67.1

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix I

Rating Scale & Definitions: [MANAGEMENT QUALITY \(IA\)](#)

AM1 (IA)

Highest Management Quality

AM2 (IA)

High Management Quality

AM3 (IA)

Good Management Quality

AM4 (IA)

Adequate Management Quality

AM5 (IA)

Weak Management Quality

The rating grades from AM2 (IA) TO AM5 (IA) May be modified by a (+) or (-) sign to indicate the relative positioning within a rating category.

Rating Watch: JCR-VIS places entities 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 to 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 Investments 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
	04/19/2023	AM2++(IA)	Stable	Upgraded
	04/13/2022	AM2+(IA)	Stable	Reaffirmed
	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	March 22, 2023	