

RATING REPORT

Magnus Investments Limited

REPORT DATE:

June 14, 2024

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	Reaffirmed	Upgraded
Outlook Date	June 14, 2024	April 19, 2023

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/Management-Quality-IA-with-ESG-V2.pdf>

Magnus Investments Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Magnus Investments Limited (MIL) was established in June 2007 as an unlisted public limited company, categorized as a Non-Banking Financial Company (NBFC). Holding an Investment Advisory license from the Securities and Exchange Commission of Pakistan (SECP), the company specializes in offering investment advisory services to institutional clients and High Net Worth Individuals (HNWIs).

Profile of Chairman

Dr. Nishat holds a doctorate degree in Economics (with specialization in Finance) from the University of Auckland, New Zealand. Dr. Nishat has been a Professor of Economics & Finance and Associate Dean at the Faculty of Business Administration, IBA, Karachi. He has also served as a Professor and Dean at the Faculty of Management Sciences, Saleem Habib University, Karachi. He is currently the Dean at the Faculty of Management Sciences, SZABIST, Karachi. He is the author and co-author of more than 60 research articles in professional academic Journals.

Profile of CEO

Mr. Jeddy is the founder and CEO of Magnus. He is a seasoned investment banker with seventeen years'

About the Company

Magnus Investments Limited (“MIL” or “the Company”) is an unlisted public limited company incorporated in Pakistan on June 07, 2007 under the Companies ordinance 1984. MIL operates as an investment advisor specializing in providing investment advisory services to institutions and high net worth individuals. The Company’s major focus is to offer solutions for retirement funds and assisting parties interested in making long-term investments. Furthermore, the Company has also started Mutual Funds distribution. MIL has also established contracts with 4 AMCs of Pakistan for Mutual Funds distribution.

The Company has two subsidiaries:

1. Arkad Consultants Private Limited (Arkad): It is a wholly-owned subsidiary of Magnus Investments Limited. Arkad is a financial services company which deals in distribution of financial products such as insurance products.
2. Magnus Partners LLP (the Fund): It is a private fund sub-categorized as an alternative fund under the Private Funds Regulations, 2015. The Fund was launched on April 06, 2023, constituted under a Limited Liability Partnership (LLP) form and organized in an open-end structure. It was established under the license of Private Equity and Venture Capital Fund Management Services granted to the Company.

Magnus Investments Limited, being an independent investment advisor, has decided to wind-up the Fund to restore its independence. Accordingly, the Company has initiated the winding-up process of the Fund.

The Company has licenses of Investment Advisory Services, Private Equity and Venture Capital Fund Management Services, and REIT Management Services under the Non-Banking Finance Companies Rules 2003.

Key Rating drivers:

Company Demonstrates Strong Organizational Structure with Professional Management Team

The management structure of the Company consists of two main divisions: the Investments and the Non-Investments team. The Investments team comprises: Portfolio Analysis (PA), Securities Analysis (SA), Private Equity (PE), Portfolio Management (PM), and Private Clientele Group (PCG). The PM and PCG departments report directly to the Head of PM who is also the Managing Director (MD). Additionally, the PA and SA departments report directly to the CEO/CIO and actively participate in investment decisions. SA conducts buy-side research and shortlists stocks, while PA is responsible for Fixed Income instruments and asset allocation according to client requirements. The PM department oversees client relationship management, including periodic reporting, cash flow monitoring, portfolio rebalancing, and performance reviews.

The Board of Directors (BoD) of the Company consists of six members, including two independent directors. During FY24, there was a modification in the board composition, marked by the addition

worth of experience with Citigroup in mergers & acquisitions and credit & risk management. He specializes in the fundamental investment analysis of industries and companies. Mr. Jeddy has cleared the mandatory exams administered by the Institute of Financial Markets of Pakistan (IFMP) and is a Certified Director from the Pakistan Institute of Corporate Governance (PICG).

of Mr. Riyaz Ali Towfiq Chinoy and the departure of Mr. Naveed Ahad. Mr. Riyaz Ali Towfiq Chinoy also holds shareholding in the Company.

A Strategy Committee, is also present to aid management in strategic decision-making and address critical matters of the Company. Additionally, an Audit Committee is in place to oversee the internal audit process and manage the whistle blower function. The head of Compliance acts as an independent liaison officer for the Audit Committee of the Board.

Furthermore, the Company has three management committees: the Investment Committee, Disciplinary Committee, and Sexual Harassment Committee. Lastly, the Company has maintained a thorough Business Continuity & Disaster Recovery (BCDR) plan, including an alternative office setup and cloud-based data backup.

Strategic Controls and Compliance Measures Strengthen Company Operations

The management has put in place clear controls in the form of Standard Operating Procedures (SOPs). A dedicated compliance team is responsible for monitoring the status of all SOPs and their review by an outside legal counsel from time to time. MIL maintains transparency and compliance with regulatory requirements. A dedicated team, along with password-protected rooms and resources, has been allocated to work for Private Clientele Group (PCG) to safeguard their data and information. Stringent guidelines and monitoring are in place for employees, prohibiting trading without prior written consent from the Company. A.F. Ferguson & Co. oversees the Internal Audit function, holding an "A" category ranking by the State Bank of Pakistan.

Company targets AUM growth with client expansion while also started mutual funds distribution business

Details of Portfolio - Market Value	Jun'22 (%)	Jun'23 (%)	Dec'23 (%)
Discretionary Portfolio			
Local Clients	73.1%	69.3%	70.4%
Foreign Clients	4.2%	6.3%	5.6%
Sub- total	77.2%	75.6%	76.0%
Non-Discretionary Portfolio			
Local Clients	22.8%	24.4%	24.0%
Foreign Clients			
Sub-total	22.8%	24.4%	24.0%
Grand Total	100%	100%	100%

AUMs of the Company inched down from Jun'22 to Jun'23 primarily due to the final settlements paid by the clients of Magnus to their employees, which are mostly retirement funds. As of Dec'23, the Company's AUMs have increased backed by the Company's successful on boarding of new Clients, with one of the new clients anticipated to emerge as a significant contributor. As of Dec'23, 76% of the Company's AUMs originated from discretionary portfolios, with 5.6% of these funds sourced from foreign investors. The remaining 24% of the Company's AUMs are attributed to non-discretionary portfolios.

Furthermore, the Company has commenced mutual funds distribution which will help the Company to further strengthen its top and bottom line.

MIL's Long-Term Portfolio Performance Surpasses Benchmarks Despite Short-Term Underperformance

The short-term performance of MIL's clients' stocks portfolio during CY23 has shown underperformance when compared to the KSE-100 index. This is due to the strategy of keeping the banking sector unallocated against the KSE-100 weight, owing to the significant risk of Domestic Debt Restructuring (DDR) during the year. This strategy was discussed by Magnus with its clients since the beginning of the CY 2023 and an informed decision was made despite knowing that the banking sector would continue to deliver outstanding growth during the year. However, the total portfolio return remained decent during CY 2023 despite this underperformance. The majority of the Company's portfolio consists of retirement funds, which are inherently long-term investments, with expected returns clearly outlined in the Investment Policy Statement mutually agreed upon between MIL and its clients. Analysis of long-term data from a random sample indicates that MIL's portfolio returns have surpassed the expected benchmark returns outlined in the IPS. VIS will continue to monitor the performance of the portfolio returns.

Financial Highlights and Investment Profile: FY23 and HY'FY24 Progress

In FY23, the Management Fee of the Company rose to Rs. 274.5 million from Rs. 257.5 million in FY22. Client concentration of the fee remained relatively stable, accounting for approximately 35.5% of the management income for FY23, compared to 37.1% in FY22.

Recurring Income, including Management Fee, Markup Income, and Dividend Income, totaled Rs. 305.3 million in FY23, up from Rs. 282.9 million in FY22. Recurring expenses increased in line with income, maintaining a stable efficiency ratio of 69.5%. By HY'FY24, Recurring Income reached Rs. 173.9 million, leading to an improvement in efficiency as the efficiency ratio decreased to 62.8%.

With stocks investments at 35% of adjusted equity (total equity minus unrealized gain or loss), the fund presents a low-risk equity profile, positioned to gain from market upswings while facing market fluctuations.

The Company's paid-up capital increased to Rs. 162.9 as of Jun'23, up from Rs. 148.2 million in Jun'22. This growth can be attributed to the issuance of right shares to Mr. Riyaz Ali Towfiq Chinoy. As a result, Total Equity of the Company reached to 609.9 million as of Jun'23. As of Dec'23, the Company's total equity increased and amounted to Rs. 753.2 million. This increase can be attributed to strong profit retention of the Company.

Magnus Investments Limited

Financial Summary – Unconsolidated <i>(Figures in millions)</i>					Annexure I
BALANCE SHEET	Jun-20	Jun-21	Jun-22	Jun-23	Dec-23
Property and Equipment	175.7	197.1	265.5	257.2	255.6
Investments	153.3	231.1	251.2	227.0	307.9
Cash and bank balances	41.3	24.1	20.7	5.3	27.9
Investment in subsidiaries	-	-	-	110.5	131.6
Others	81.7	88.1	91.4	110.3	122.8
Total Assets	452.0	540.4	628.7	710.4	845.8
Issued, Subscribed & Paid-up Capital	140.0	140.0	148.2	162.9	162.9
Share Premium	51.5	51.5	51.5	112.8	112.8
Surplus on Revaluation of Available for Sale Investments	(0.4)	34.8	12.3	(10.6)	66.2
Accumulated Profit	190.3	220.9	284.1	344.8	411.3
Total Equity	381.4	447.2	496.1	609.9	753.2
INCOME STATEMENT					
Management Fee	182.5	228.8	257.5	274.5	155.3
Investment Income	5.2	2.5	2.7	4.3	2.4
Dividend Income	8.9	15.5	22.7	26.4	16.3
Capital Gain / (Loss) on Sale of Investment	(2.3)	0.1	-	-	-
Un-realized gain on fair value of investment in Magnus Partners LLP	-	-	-	3.4	21.1
Others	0.3	0.2	2.6	3.0	0.1
Total Revenue	194.7	247.1	285.5	311.7	195.0
Administrative & Operating Expenses	138.6	172.1	194.3	223.8	109.2
Profit Before Taxation	56.1	75.0	91.2	87.9	85.8
Profit After Taxation	38.0	55.2	67.1	60.7	66.5

REGULATORY DISCLOSURES		Appendix I		
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
	06/14/2024	AM2++(IA)	Stable	Reaffirmed
	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.			
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Due Diligence Meetings Conducted	Name	Designation	Date	
	Mr. Umair Aslam	Head of Portfolio Management – Managing Director	May 09, 2024	
	Mr. Akif Hasan	Chief Financial Officer		
	Mr. Umair Javaid	Finance Manager		