VIS
Credit Rating Company Limited

RATING REPORT

Analysts:
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ARIF HABIB LIMITED

Chief Executive Officer: Mr. Muhammad Shahid Ali Habib

Chairman: Mr. Zafar Alam

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	AA-	A1	AA-	A1
RATING OUTLOOK/ WATCH	Stable		Rating Watch – Developing	
RATING ACTION	Maintained		Maintained	
RATING DATE	May 26, 2025		November 5, 2024	

APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Broker Entity Rating
https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf

Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

RS. MILLION	FY23	FY24	9MFY25
Operating Revenue	1,495	1,120	1,151
PBT	254	762	956
PAT	185	612	750
Paid up capital	653	653	653
Equity (incl. surplus on PEE)	4,994	1,273	1,697
Total Debt	1,621	739	127
Debt Leverage (x)*	0.37	1.03	0.56
Gearing (x)	0.33	0.58	0.08
Liquid Assets	3,868	3,922	5,363
Liquid Assets/Total Liabilities (x)*	1.39	0.89	1.06
Efficiency (%)	37.9%	65.7%	69.7%

**Adjusted for customer balances*

RATING RATIONALE

The assigned ratings reflect Arif Habib Limited's ('AHL' or 'the Company') position as one of the market leaders in both the brokerage and corporate advisory segments. While the company's decision to divest certain assets and liabilities through a demerger has significantly shrunk its equity base, negligible gearing provides strong support to the rating. Enhanced profitability due to the extended rally in the stock market has contributed to strengthening of the equity base.

Ratings further incorporate the fact that the company is part of the Arif Habib Group, with ~74% shareholding vested with Arif Habib Corporation Limited (AHCL). AHCL has a sizeable shareholding in many different companies operating in diverse sectors such as fertilizers, securities & commodities brokerage, corporate advisory, asset management, cement, steel, wind power and real estate development sectors.

The Company also has a relatively diversified revenue mix. While the Company's revenue is dominated by equity brokerage, the presence of a strong advisory segment supports revenue diversification. The Company's investments in equity securities are related to ready future transactions, which carry low market risk.

The business risk of the Company remains high, with the Company operating in the highly competitive brokerage industry.

COMPANY PROFILE

Arif Habib Limited ('AHL' or 'the Company'), established in 2004, is a prominent brokerage and financial services company. The company is engaged in provision of equity and money market brokerage, interbank foreign exchange, and corporate advisory services. AHL's operations run through its head office in Karachi along with 5 branches, one each in Lahore, Islamabad, Faisalabad, Multan, and Peshawar. Majority shareholding of the Company is vested with Arif Habib Corporation Limited (AHCL), representing ~74% of the shareholding.

Sponsor Profile

AHCL is primarily engaged in making strategic investments in subsidiary companies and associates operating across diversified sectors, along with investments in other securities. The Company also extends loans, advances and guarantees to its associated companies / undertakings. AHCL holds ~74% shareholding in AHL.

Scheme of Arrangement

On October 21, 2024, the High Court of Sindh sanctioned a Scheme of Arrangement involving the transfer of non-core assets and liabilities from Arif Habib Limited (AHL) to Arif Habib Corporation Limited (AHCL), effective from July 1, 2023. Under this scheme, the following asset classes were demerged:

- Non-current assets: long-term investments (PKR 1,054m), investment property (PKR 404m), and long-term advances and deposits (PKR 458m).
- Current assets: short-term investments (PKR 2,727m), receivables against trading of securities (PKR 10m), and other receivables (PKR 1,158m).

The total asset transfer amounted to PKR 5,811 million.

In parallel, liabilities totaling PKR 1,642 million were also derecognized, comprising deferred tax (PKR 72m), short-term borrowings (PKR 1,510m), accrued markup (PKR 51m), and trade payables (PKR 9m). The net asset impact (total assets less total liabilities) of PKR 4,169.7m was recorded as a reduction in unappropriated profits.

As consideration, AHCL allotted 13.3 million ordinary shares to AHL's shareholders (excluding AHCL), based on a swap ratio of 0.8673:1. There was no change to AHL's share capital as a result.

Post-demerger, AHL's total assets declined from PKR 7.8 billion in FY23 to PKR 5.7 billion in FY24, with a corresponding reduction in equity.

INDUSTRY PROFILE

During FY24, PSX achieved the highest equity market performance globally, with its KSE-100 Index soaring to 78,444.96, a significant increase from 41,452.69 in FY23. The index recorded an impressive annual return of 89% in PKR terms and 94% in USD terms. The surge was driven by improved economic indicators such as increased exports and remittances, a notable decline in inflation, and favorable financial developments, including the successful completion of the IMF Stand-by Agreement.

The positive momentum extended into 9MFY25, with the KSE-100 Index reaching a high of 117,807. This growth was underpinned by sustained economic recovery, monetary easing, and a stable currency. The Staff level agreement on the first review for the 37-month Extended Fund Facility as well as a new 28-month arrangement under the resilience and sustainability facility (RSF) has further enhanced investor confidence, while improvements in private sector credit, auto financing, petroleum sales, power generation, exports, and remittances further contributed to market activity. Looking ahead, while the potential risks, including any potential devaluation of the PKR and political uncertainty, could pose challenges, improving macroeconomic indicators along with declining external financing needs are likely to sustain market performance.

FINANCIAL RISK

Capital Structure

Following the demerger, the Company's equity base, excluding the revaluation surplus, declined significantly to PKR 1,265.3m (Jun'23: PKR 4,986.4m). However, it increased to PKR 1,689.1m as at Mar'25, supported by higher profitability. With the decline in equity and increase in liabilities, gearing and leverage ratios slightly rose in FY24. Nonetheless, both ratios improved in 9MFY25 and were reported at 0.08x and 2.98x as at Mar'25 (Jun'24: 0.58x and 3.48x; Jun'23: 0.33x and 0.56x, respectively). The rise in liabilities primarily stemmed from an increase in trade payables, which majorly reflect customers' cash held in bank accounts. Adjusting for these, the Company's leverage stood at 0.56x as at Mar'25 (Jun'24: 1.03x; Jun'23: 0.37x). Additionally, short-term debt decreased to PKR 664.3m as at Jun'24 (Jun'23: PKR 1,617.8m) following the demerger and was further reduced to PKR 77.8m as at Mar'25.

Profitability

While the Company maintains a diversified revenue stream, the equity brokerage segment remains the primary contributor, accounting for ~75% of operating revenue. In FY24, equity brokerage revenue surged by ~174% to PKR 618.8m (FY23: PKR 355m), supported by heightened market activity amid enhanced investor confidence, which was driven by favorable market conditions. Interbank brokerage income also grew by ~41%, reaching PKR 163.2m (FY23: PKR 116.1m). Conversely, income from advisory and consultancy services declined by ~27% to PKR 250.2m (FY23: PKR 343.5m). Markup income on corporate debt securities and dividend income also contracted significantly by ~91% and ~97%, respectively, amounting to PKR 25.8m and PKR 11.8m (FY23: PKR 275.9m and PKR 340.7m). This decrease is attributed to the derecognition of the investments in equity securities following the demerger. As a result of these sharp contractions, the Company's total operating revenue declined by ~25%, standing at PKR 1,119.7m in FY24.

However, in 9MFY25, the Company posted an operating revenue of PKR 1,151.0, which, when annualized, exceeds both FY23 and FY24 levels, primarily driven by higher brokerage revenue of PKR 862.1m, followed by advisory income of PKR 202.0m.

The decline in recurring revenue during FY24 adversely impacted operational efficiency, as reflected in the increase in the cost-to-income ratio. Although recurring revenue improved in 9MFY25, administrative expenses also rose—mainly due to higher commission and bonus payouts—placing further pressure on efficiency. As a result, the cost-to-income ratio climbed to ~70% in 9MFY25 (FY24: ~66%, FY23: ~38%).

On the other hand, the Company's profitability improved notably in FY24, with profit after tax rising to PKR 611.9 million (FY23: PKR 184.7 million). This improvement was largely driven by a significant reduction in finance costs, resulting from lower debt levels and a favorable interest rate environment. The positive trend in profitability continued into 9MFY25, with profit after tax reported at PKR 750.4m.

Credit Risk

The Company's credit risk profile primarily emanates from trade debts and receivables against margin financing, which stood at PKR 367.4m and PKR 314.0m, respectively, as at Mar'25 (Jun'24: PKR 344.5m and PKR 117.4m; Jun'23: PKR 259.7m and PKR 113.4m). In order to mitigate credit risk, the Company holds capital market securities owned by clients as collateral against both trade debts and margin financing. However, the value of these collaterals is subject to market fluctuations, thereby exposing the recoverability of receivables to market risk. The Company has implemented due diligence procedures to evaluate clients' creditworthiness, with trade limits assigned and strictly monitored.

Market Risk

The Company previously held sizeable exposures in Naya Nazimabad Apartment REIT and Rahat Residency REIT, which were divested following the demerger. As at Mar'25, long-term investments stood at PKR 73.2m (Jun'24: PKR 68.5m; Jun'23: PKR 1,123.3m), comprising investments in Rayaan Commodities (Pvt.) Limited, a wholly owned subsidiary, along with investments in office spaces located within the building complex of ISE Towers REIT Management Company Limited, as well as in LSE Capital Limited and LSE Venture Limited.

As at Jun'24, the Company's short-term investments declined to PKR 550.7m (Jun'23: PKR 2,849.8m), primarily due to the derecognition of investments following the demerger. As at Mar'25, these stood at PKR 669.9m, representing ~40% of the Company's equity base. Notably, the equity securities held are related to ready-future operations and therefore do not entail market risk. Going forward, the Company plans to continue operating in the ready future arbitrage segment.

Liquidity Risk

Liquid assets of the Company, which comprises cash balances, short term investments, and exposure deposits, amounted to PKR 5,362.6m as at Mar'25 (Jun'24: PKR 3,922.2m, Jun'23: PKR 3,868.3m), providing a coverage of 1.06x against its total liabilities as at Mar'25 (Jun'24: 0.89x, Jun'23: 1.39x). Additionally, current ratio of the Company was recorded at 1.29x as at Mar'25 (Jun'24: 1.24x, Jun'23: 2.07x).

GOVERNANCE

The Board of Directors of Arif Habib Limited (AHL) comprises seven members, including the CEO and the Chairman, with a balanced mix of one executive, four non-executive, and two independent directors. The presence of independent directors strengthens the Company's governance and oversight framework. There are three board-level committees in place: (i) Audit Committee, (ii) Risk & Compliance Committee, and (iii) HR & Remuneration Committee. All committees are chaired by independent directors.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Risk & Compliance Committee is responsible for monitoring the areas that are deemed risky by the management, Internal or external auditors, as well as implementing the mandatory controls required to mitigate such risks. The Company has a coherent and effective risk management framework that allows it to efficiently manage exposure to risk.

FINANCIAL SUMMARY (amounts in PKR millions)						Appendix I
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25***
Trade Debts	157	240	166	260	344	367
Long Term Investments+Investment Property	1,805	2,105	1,738	1,574	107	117
Short term Investments	3,724	2,747	5,273	2,850	551	670
Cash and Bank balances	806	2,674	1,068	987	3,192	4,229
Total Assets	6,869	8,472	8,986	7,786	5,680	6,734
Trade and Other Payables	795	1,790	1,120	996	3,447	4,684
Long Term Loans	838	30	20	3	75	49
Short Term Loans – Secured	1,836	1,369	2,432	1,618	664	78
Total Debt	2,674	1,400	2,452	1,621	739	127
Paid Up Capital	594	594	653	653	653	653
Net Worth (excluding revaluation surplus)	2,833	4,952	5,186	4,986	1,265	1,689
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25***
Total Revenue	707	3,078	1,670	1,503	1,474	1,895
Brokerage Income	323	706	517	471	782	862
Advisory and consultancy fee	155	672	408	343	250	202
Dividend Income	167	114	142	341	12	11
Operating & Administrative Expenses	(344)	(638)	(578)	(605)	(1,003)	(1,015)
Finance Costs	(362)	(132)	(197)	(638)	(98)	(72)
Profit Before Tax	129	2,393	970	352	762	956
Profit After Tax	60	2,084	827	185	612	750
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25***
Liquid Assets to Total Liabilities	126.0%	157.4%	167.8%	138.6%	89.0%	106.5%
Liquid Assets to Total Assets	66.0%	64.6%	70.7%	49.7%	69.1%	79.6%
Leverage (x)**	1.00	0.70	0.73	0.37	1.03	0.56
Gearing (x)	0.94	0.28	0.47	0.33	0.58	0.08
Current Ratio (x)	1.53	1.80	1.90	2.07	1.24	1.29
Efficiency (%)	47%	40.1%	47.8%	37.9%	65.7%	69.7%
ROAA (%)***	1%	27.2%	9.5%	2.4%	9.1%	12.2%
ROAE (%)***	2%	41.1%	15.9%	5.9%	45.2%	63.7%

**Unaudited Accounts*
***Adjusted for customer balances*
****Annualized*

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Arif Habib Limited
Sector	Brokerage
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
26-May-25	**AA-**	**A1**	**Stable**	**Maintained**
05-Nov-24	**AA-**	**A1**	**Rating Watch – Developing**	**Maintained**
09-Oct-23	**AA-**	**A1**	**Stable**	**Reaffirmed**
09-Mar-22	**AA-**	**A1**	**Stable**	**Reaffirmed**
26-Jul-21	**AA-**	**A1**	**Stable**	**Reaffirmed**
13-Apr-20	**AA-**	**A1**	**Stable**	**Reaffirmed**
17-Jan-19	**AA-**	**A1**	**Stable**	**Reaffirmed**
24-Nov-17	**AA-**	**A1**	**Stable**	**Reaffirmed**
29-Nov-16	**AA-**	**A1**	**Stable**	**Reaffirmed**
24-Jun-15	**AA-**	**A1**	**Stable**	**Initial**

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	N/A
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Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Usman Taufiq Ahmed	Head of HNWI/Corporates Capital Markets	March 20, 2025
2	Ms. Sana Tawfik	Head of Research	
3	Mr. Farhan Rizvi	Director Investment Banking	
4	Mr. Bilal Khan	Head of International Sales	
5	Mr. Muhammad Taha Siddiqui	Company Secretary & CFO	