

RATING REPORT

Pakistan Currency Exchange Company (Private) Limited

REPORT DATE:

November 20, 2023

RATING ANALYST:

Saeb Muhammad Jafri

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Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	November 20, 2023	
Rating Action	Initial	

COMPANY INFORMATION

Incorporated in 2003	External auditors: Baker Tilly Mehmood Idrees Qamar Chartered Accountants
Private Limited Company	Chairman: Mr. Muhammad Bostan
Company Shareholders:	Chief Executive Officer: Maj (R) Khizer Hayat Khan
Mr. Imran Ali Bostan – 97% Mr. Malik Tahir Abbas – 2% Maj (R) Khizar Hayat Khan – 1%	

APPLICABLE METHODOLOGY(IES)

Currency Exchange Companies Ratings Methodology (October 2023):
<https://docs.vis.com.pk/docs/ExchangeCompanyRatingMethodologyV2-2023.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Pakistan Currency Exchange Company (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Pakistan Currency Exchange Company (Private) Limited ('PCEC') was established in June 2003 as a private company. Licensed by the State Bank of Pakistan, PCEC conducts currency exchange and related services in line with the Foreign Exchange Regulations Act, 1947.</p> <p>Mr. Muhammad Bostan, a prominent figure in Pakistan's currency exchange sector. In December 1994, he founded Bostan International, which merged with PCEC in June 2003, where he serves as Chairman.</p>	<p>Company Profile</p> <p>Pakistan Currency Exchange Company (Private) Limited ('PCEC' or 'the Company') was established as a private limited company in June 2003. The State Bank of Pakistan (SBP) granted the Company a license to conduct currency exchange and associated services within the purview of the Foreign Exchange Regulations Act, 1947. The Company's registered office is located at Office, 7, 8 and 9 Al-Rasheed chamber, 12/A, Block-6, P.E.C.H.S. Main Shahrah-e-Faisal, Karachi. PCEC operates through multiple branches across various cities in Pakistan, including Karachi, Lahore, Islamabad, Quetta, and Peshawar.</p> <p>Previously, the Company maintained agreements with independent entities that functioned as its franchises and booths, operating under licenses issued by the SBP to PCEC. However, effective September 2023, in accordance with revised currency exchange company regulations enacted by the State Bank of Pakistan, the Company is in process of consolidating its franchises and booths under its direct management.</p> <p>Management Structure</p> <p>The Company is privately held and governed by a board of three directors: Mr. Imran Ali Bostan, Maj (R) Khizar Hayat Khan, and Mr. Malik Tahir Abbas. Mr. Imran Ali Bostan holds the majority ownership with 97% of the Company's shares, while Mr. Malik Tahir Abbas and Maj (R) Khizar Hayat Khan own 2% and 1%, respectively. Maj (R) Khizar Hayat Khan holds the position of CEO. The Chairman and founder of the Company is Mr. Muhammad Bostan.</p> <p>Mr. Muhammad Bostan is a notable figure in the currency exchange business in Pakistan. In December 1994, he founded Bostan International, a money exchange, which was later converted to PCEC in June 2003. Since then, he has served as its chairman. He is also the Chairman of Forex Association of Pakistan and has been leading that forum for a very long time.</p> <p>While the directors take an active role in overseeing the comprehensive operations of the Company, all strategic decisions are led by the Chairman.</p> <p>Key Rating Drivers</p> <p>Ratings incorporate High to Medium business risk profile.</p> <p>VIS considers business risk profile of the Currency Exchange sector to be 'High to Medium'. The industry is characterized by high inherent exposure to fluctuations in currency exchange rates, and susceptibility to changes in regulations. While substitution risk is considered low, being the only conduit for most currency exchange transactions, operational risk in terms of AML/KYC remains heightened. However, regulatory guidelines and framework, while constraining, effectively serve to mitigate a significant portion of these operational risks. Close oversight by the regulator provides comfort to ratings. With the recent change in regulations allowing banks to establish separate currency exchange subsidiaries, is expected to increase competitive pressures in the industry.</p> <p>Assigned ratings are supported by PCEC strong market presence, being the largest exchange company handling ~15-20% of the currency exchange volumes. The competitive position allows the company to manage and diversify its risks effectively. Furthermore, adoption of conservative internal policies provides additional comfort. To minimize exposure to currency exchange rate fluctuations, PCEC as a</p>

policy of consistently offloads its daily surplus position in the interbank market, thereby mitigating the Company's inherent exchange risk exposure. Internal policy related to forex position management and implementation of the same remains key.

Improvement in profitability over time, albeit depicting volatility.

Ratings take into account the steady improvement in PCEC's Foreign Exchange Income, which increased from PKR 741 million in FY22 to PKR 1,759.7 million in FY23, despite volumes taking a dip in FY23. Currency positions in a depreciating currency environment contributed to the topline. PCEC has demonstrated significant volatility in its profit margins between FY20 and FY23, arising from fluctuations in volumes and the regulatory constraints on the Company's ability to manage its spread. As per regulations SBP allows exchange Companies to have a spread of maximum 1% between the buy and sell rates. Therefore, the ability of an exchange company to improve and sustain its profitability margins is constrained.

Albeit margin fluctuating, net profitability has exhibited an inclining trend, led by improved operational efficiencies over time as well as higher contribution from other income. Company's efficiency ratio has demonstrated improving trends, which enhanced from 100.1% in FY20 to 76.1% in FY23, on the back of constrained operating expense growth. Increase in other income also stems from additional incentive of Rs.1 allowed by SBP on inward remittances. PCEC reported a notable uptick in other income on account of remittance incentive. However, overall profitability uptick was constrained by the heightened financial burden incurred by the Company in FY23. This increased burden can be associated with higher debt utilization during the year.

Ratings will continue to be sensitive to PCEC's ability to sustain its profitability growth by consistently expanding its transaction volumes. Moreover, the ongoing improvement in its efficiency ratio will remain a key determinant in ratings assessment.

Ratings remain sensitive to improvement in Capitalization profile.

In FY23, PCEC's capitalization indicators registered notable uptick stemming from a surge in short-term debt. Consequently, gearing and leverage ratios were higher at 2.3x (FY22: 0.2x) and 3.7x (FY22: 1.3x), respectively. Increased debt utilization was primarily led by higher working capital requirements on account of inflationary pressures and increase in branch network.

Going forward, improvement in capitalization indicators and maintenance of the same within reasonable ranges will remain important for ratings.

Ratings supported by adequate liquidity and sound coverage factors.

In FY23, the Company witnessed a decline in its current ratio, falling from 1.8x in FY22 to 1.3x in FY23. While the relative change in current assets and liabilities remained nominal, the decline can primarily be ascribed to low base effect. The Company's liquidity profile remains stable and is expected to be so throughout the rating horizon, given the inherent liquid nature of its business. Furthermore, PCEC maintains a sound coverage profile, as reflected in its debt service coverage ratio (DSCR) of 2.3x in FY23 (FY22: 1.9x), providing comfort to the assigned ratings.

Pakistan Currency Exchange Company (Private) Limited
Appendix I

REGULATORY DISCLOSURES					
Name of Rated Entity	Pakistan Currency Exchange Company (Private) Limited				
Sector	Currency Exchange Company				
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				
	20-11-2023	A-	A-2	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.				
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Due Diligence Meetings Conducted	S.No	Name	Designation	Date	
	1	Mr. Muhammad Bostan	Chairman	October 24, 2023	
	2	Mr. Farooq Mahmood Bhatti	Chief Financial Officer	October 19, 2023	
	3	Mr. Umar Masood	Chief Compliance Officer		
	4	Mr. Asif Shareef	Head of SBP Reporting		