RATING REPORT

Pakistan Currency Exchange Company (Private) Limited

REPORT DATE:
November 28, 2024

RATING ANALYST:
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Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A2	A-	A2
Rating Outlook/Watch	Stable		Stable	
Rating Date	*November 28, 2024*		*November 20, 2023*	
Rating Action	*Reaffirmed*		*Initial*	

COMPANY INFORMATION

Incorporated in 2003	**External auditors:** Baker Tilly Mehmood Idrees Qamar Chartered Accountants
Private Limited Company	**Chairman:** Mr. Muhammad Bostan
Shareholders holding 5% or more:	**Chief Executive Officer:** Mr. Khizer Hayat Khan
Mr. Imran Ali Bostan – 97%	

APPLICABLE METHODOLOGY(IES)

Currency Exchange Companies Ratings Methodology:
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

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.

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.

Company Profile

Pakistan Currency Exchange Company (Private) Limited ('PCEC' or 'the Company') was incorporated in Pakistan on June 20, 2003, as a private limited company. The State Bank of Pakistan (SBP) has issued a license in favor of the Company to undertake the business of an exchange company under the Foreign Exchange Regulations Act, 1947. The Company is engaged in the business of currency exchange and associated services permitted under the license. The registered office of the Company is situated 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.

Key Rating Drivers

Business Risk Profile

Sector Risk; High to Medium.

VIS considers the 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 changes in regulations allowing banks to establish separate currency exchange subsidiaries, the competitive pressure is expected to exacerbate going forward.

Market Presence

Assigned ratings are supported by PCEC strong market presence, being the largest exchange company handling ~15-20% of the currency exchange volumes. This competitive position allows the company to manage and diversify its risks effectively. Facing competitive pressure from banking endeavors into the currency exchange sector, the Company has been expanding its network to maintain its dominant market position.

Forex Exposure Policies

To minimize exposure to currency exchange rate fluctuations, PCEC 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. PCEC's conservative exposure policies provides comfort to assigned ratings.

Financial Risk Profile

Profitability Profile

PCEC's revenue streams from foreign exchange income, segmented into currency and remittance exchange income, demonstrated mixed trends in FY24. Foreign exchange income declined by 1.7%, primarily attributable to a 2.0% reduction in currency exchange income, driven by exchange rate fluctuations and a slight decline in transaction volumes. In contrast, remittance exchange income increased by 2.8%, supported by higher inward remittance during the period. The decline in currency exchange income reflects reduced demand for discretionary foreign exchange transactions due to administrative controls on imports and restricted dollar availability during FY24.

The operating margin improved to 48.6% (FY23: 24.4%), largely due to cost rationalization measures, including reductions in employee monetary benefits and rent expenses. However, net income declined by 85.2%, primarily due to a significant 345% increase in finance costs, driven by elevated interest rates and higher reliance on running finance facilities to address working capital requirements amid liquidity constraints. As a result, the net margin contracted to 1.5% (FY23: 10.2%).

Capitalization Profile

Despite an increase in short-term debt drawdowns due to increasing working capital needs, the Company's capitalization metrics showed improvement in FY24, with the gearing and leverage ratio improving to 2.0x (FY23: 2.3x) and 2.7x (FY23: 3.7x), respectively. This strengthening of the capital structure is attributed to a higher equity base, supported by funds received from franchisers in the form of preference shares.

Coverage Profile

PCEC's coverage indicators deteriorated during FY24, as reflected in the debt service coverage ratio (DSCR) declining to 1.0x (FY23: 2.3x). The decline was primarily attributable to a 64.5% reduction in funds flow from operations (FFO), driven by a contraction in profitability and a rise in finance costs during the year. Increase in finance cost is linked to higher short-term debt utilization amid an elevated interest rate environment.

Liquidity Profile

PCEC's overall liquidity profile remained stable in FY24 with a current ratio of 1.4x (FY23: 1.3x) in FY24. However, much of this liquidity is currently in the form of advance against office purchases because of which the Company's liquid assets to total liabilities ratio contracted to 0.4x (FY23: 1.0x) during the period. Nevertheless, as an exchange company, the Company's business model is intrinsically liquid, reflected in its consistently negative cash conversion cycle (CCC). The CCC in FY24 was -36 days (FY23: -111 days).

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	see table below
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	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
28-11-2024	**A-**	**A2**	**Stable**	**Reaffirmed**
20-11-2023	A-	A2	Stable	Initial

Due Diligence Meetings Conducted

S.No	Name	Designation	Date
01	Mr. Babar Shehzad	Country Manager	14-Nov-24
02	Mr. Farooq Bhatti	Chief Finance Officer (CFO)	
03	Mr. Umar Masood	Chief Compliance Officer	