



RATINGS (MARCH 2011)
HABIB ASSET MANAGEMENT LIMITED (HAML)

RATING RATIONALE AND KEY RATING DRIVERS

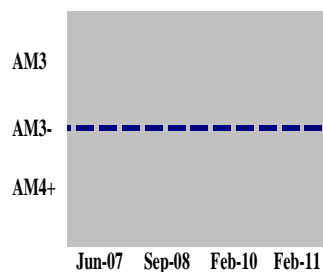
- The rating reflects HAML's qualified management team, and adequately structured investment process given the size of funds and scale of operations. The rating incorporates HAML's association with a leading commercial bank, Bank AL Habib Limited, though the benefits that may accrue in terms of expansion in size are yet to happen. The company has taken various steps to improve efficacy of business functions such as risk management and investor services platform by deploying requisite resource. However, unit holder concentration in AUM is still high.
The positive outlook reflects the management's initiative to diversify its fund slate by launching new funds (First Habib Cash Fund, launched in Mar11 and another fund in pipeline) inline with changing dynamics of the industry. The management's ability to effectively execute its business plan, while improving its market standing, would remain critical.

OUTLOOK: POSITIVE

ASSESSMENT

- HAML, incorporated in September 2005, is licensed to carry out asset management and investment advisory services under the Non-Banking Finance Companies Regulations. The company is a part of Habib group - the oldest and a distinguished name in Pakistan's banking circle, with interest in insurance, sugar, textile, auto, food and trade sectors. Habib family members and associates own around 90% of shareholding in the company. Bank AL Habib Limited (BAHL) with 30% ownership stake is the single largest shareholder. The bank, rated 'AA+' by PACRA, had an asset base of 301 billion at end- Dec10. The capital base of the company has been maintained at PKR 111mln at end Jun-10. The company may need capital injection to meet the increasing MCR requirement (PKR 150mln by end FY-12).
HAML's BoD consists of five members, including the CEO, the Chairman of BAHL, a senior executive of BAHL and a distinguished entrepreneur as an independent director. Currently, one seat is vacant. Mr. Imran Azim, the CEO of HAML, is an MBA and has reasonable experience in Pakistan's mutual fund industry. His immediate past experience was in industrial concerns.
HAML witnessed a meager growth of 8% in its AUM, while the system share was largely maintained. Presently, HAML has two open-end funds under management - First Habib Income Fund (FHIF) and First Habib Stock Fund (FHSF). Both the funds depict high unit-holder concentration with top ten holdings representing 80% contribution. This exposes the company to higher level of redemption risk, though comfort can be drawn from a sizable portion of group investment in both funds. Meanwhile, the company's penetration in the retail segment is minimal. Cognizant of the limited fund slate and in response to the prevailing market appetite, HAML has recently launched a money market fund - First Habib Cash Fund, to cater risk averse investor base. Though the market is ripe, yet the extent of success of this initiative remains to be seen.
Despite having agreement with BAHL & Habib Insurance for marketing and distribution of units, HAML has limited success in capitalizing on this platform. This is partly due to the relatively limited focus on asset management business in the overall business strategy of the Habib Group and lesser priority of branch manager in mobilizing funds. Currently the marketing and sales department comprises a recently inducted Head of Sales, four Relationship Managers and one Marketing Officer. Going forward, the company plans to launch a campaign to market funds under the brand of "Habib Funds", the main focus of the AMC will be to tap high net worth investors.
Investment Committee (IC), comprising 1) CEO, 2) CFO, and 3) Fund Manager, is responsible for the investment decision-making process. Currently, the IC formally meets once a week to take decisions and to set broad investment limits. Although the company does not have a dedicated resource to head the research function. However, it has recently appointed a personnel as Head of Risk (HoR), who in addition to overseeing compliance function, would manage HAML's in-house research function. The research division comprises two research analysts. Currently, one research analyst also assists HoR in carrying out compliance procedures. Risk policy document has been prepared and approved by the BoD. With the induction of HoR, HAML plans to improve overall control environment and risk management function.
The internal audit function has been outsourced to a reputable accounting firm, A.F Fergusons, which reports to the Audit Committee of BoD on a quarterly basis. The company has quality software - Asset Connect for portfolio management, unit holders and general accounting requirements.
HAML has yet to establish a separate Customer Relationship Management (CRM) department. Presently, all the customer complaints are referred to the Marketing department to take corrective measures.

RATING HISTORY



ASSETS UNDER MANAGEMENT

Amount in PKR mln

Table with columns: Funds, Size (Jan-11, Jan-10). Rows include First Habib Income Fund, First Habib Stock Fund, Total AUM, and System Share.

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