

RATING REPORT

AWT Investments Limited

REPORT DATE:

April 24, 2020

RATING ANALYSTS:

Narendar Shankar Lal

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
MQ Rating	AM3+	AM3+
Rating Date	April 24, 2020	Jan 18, 2019
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Reaffirmed

COMPANY INFORMATION

Incorporated in 2011

External auditors:

AMC – KPMG Taseer Hadi & Co. Chartered Accountants
Funds - KPMG Taseer Hadi & Co. Chartered Accountants
 Deloitte Yousuf Adil Chartered Accountants

Key Shareholders

Army Welfare Trust – 100%

Chairman of the Board: Lt. Gen. Najib Ullah Khan

Chief Executive Officer: Salman Haider Sheikh

APPLICABLE METHODOLOGY(IES)

Management Quality Rating (June 2019): <https://s3-us-west-2.amazonaws.com/backupsqvis/docs/AMC-Methodology-201906.pdf>

AWT Investments Limited

OVERVIEW
OF THE
AMC

RATING RATIONALE

AWT Investments Limited (formerly Primus Investment Management Limited) is a public unlisted company incorporated in August 2011. Head office of the company is situated in Rawalpindi.

Profile of CEO

Mr. Salman Haider has over 21 years of Investment Management experience including almost 10 years on Wall Street starting with Merrill Lynch in 1996 along with Janney and Wachovia-Wells Fargo. Mr. Haider holds Bachelors in Finance from Rutgers University USA, an MBA from University of London UK and an executive leadership graduate certification from Cornell University USA.

AWT Investments Limited (AWTIL) (formerly Primus Investment Management Limited) operates as a Non-Banking Finance Company (NBFC) with licenses to undertake “Investment Advisory” and “Asset Management Services”. Presently, the company manages five funds, namely AWT Income Fund (AWTIF), AWT Islamic Income Fund (AWTIIF), AWT Stock Fund (AWTSF), AWT Islamic Stock Fund (AWTISF), and AWT Asset Allocation Fund (AWTAAF). AWTIL also engaged in provision of Investment Advisory Services to Separately Managed Accounts (SMAs)

Key Rating Drivers**Sound Sponsor Profile**

AWTIL is a wholly owned subsidiary of Army Welfare Trust (AWT). The assigned rating takes into account sound profile of the existing sponsor, AWT, which has more than 4 decades of experience in the financial services sector, operating companies under the “Askari” brand in banking, insurance, leasing, financial services and asset management industries. The assigned ratings incorporate demonstrated support of sponsor as indicated by equity injection of Rs. 100m in FY19 and another injection of Rs. 100m in January 2020 in the form subordinated loan to ensure compliance of AWTIL with Minimum Equity Requirement (MER) for Asset Management and Investment Advisory Companies.

Market share has been sustained but is considered low. AUM profile has improved with increase in proportion of retail AUMs and reduction in investor concentration levels. However, investor concentration still remains on the higher side.

Mutual fund AUMs of AWTIL declined to Rs. 1.8b (FY18: Rs. 2.2b) at end-FY19. However, growth was observed subsequently as AUMs increased to Rs. 2.7b by end-December 2019. Market share remains on the lower side at 0.39% (FY19: 0.33%; FY18: 0.36%). The largest fund, AWT Income Fund (AWTIF), was the primary driver of growth in AUMs of the company. Size of the AWT Stock Fund (AWTSF) exhibited consistent decline in FY19 and HY20 and was lower than the minimum mandated fund size of Rs. 100m specified in NBFC regulations. However, AUMs of AWTSF increased to more than 100m in January 2020. Size of AWT Asset Allocation Fund (AWTAAF) was lower than Rs. 100m at end-January 2020. Management has recommended merger of AWTSF with AWTAAF, with AWTSF remaining as the surviving entity. Board Approval is awaited in this regard.

Figure 1: Fund wise AUMs

(Rs. in millions)	AUMs		
	Jun-18	Jun-19	Dec-19
AWTIF (Formerly: PIML Income Fund)	1,395.9	977.0	2,179.9
AWTAAF (Formerly: PIML Asset Allocation Fund)	343.0	400.1	56.1
AWTIIF (Formerly: PIML Islamic Income Fund)	99.0	217.9	304.5
AWTISF (Formerly: PIML Islamic Equity Fund)	111.5	86.9	120.0
AWTSF (Formerly: PIML Value Equity Fund)	113.3	85.1	31.3
PIML Daily Reserve Fund	107.9	-	-
Total	2,170.6	1,767.1	2,691.9

Proportion of retail investment in total AUMs improved to 28% (FY18: 20%) at end-FY19; however, the same still remains on the lower side vis-à-vis peers. Granularity in AUMs improved with top 20 investors accounting for 47.1% (FY19: 56.2%; FY18: 60.8%) at end-Dec 2020. However, the same is still considered on the higher side, making the company vulnerable to high redemption pressure.

Figure 2: Retail and associate proportion

Fund Name	FY18			FY19		
	AUMs	Retail (%)	Associates (%)	AUMs	Retail (%)	Associates (%)
AWTIF	1,403.3	26.2%	0.7%	977.0	39.1%	21.8%
AWTAAF	343.0	4.5%	68.1%	400.1	2.5%	-
AWTIIF	99.0	32.3%	10.7%	217.9	41.3%	23.9%
AWTISF	111.5	12.4%	41.1%	86.9	6.1%	-
AWTSF	113.3	5.4%	36.1%	85.1	3.5%	-
PIML Daily Reserve Fund	107.9	0.6%	97.6%	-	-	-
Total	2,178.0	20.0%	20.5%	1,767.1	27.8%	15.0%

The management aims to double the size of AUMs by end-FY20. Fixed income funds and discretionary portfolio business will remain the major area of focus for growth. Management plans to target army related institutions and high net worth individuals to achieve the requisite growth. As per management, retail proportion is expected to remain on the lower side due to declining disposable income of individuals in the light of current macroeconomic situation.

Strengthening product portfolio is considered important from ratings perspective

Presently, the company offers only five funds, which indicates limited diversification in product suite. Provided that the proposed merger of AWTSF with AWTAAF is approved, investment options offered by the company will further decrease. Management has plans to establish a hybrid REIT fund during FY20, for which Rs. 100m will be injected as equity by the sponsor. However, further strengthening of product portfolio is considered important from ratings perspective. Fund wise concentration is also noted in AUMs, with one fund accounting for approximately four fifth of mutual fund AUMs at end-HY20.

Sizeable growth witnessed in investment advisory business

The company initiated investment advisory services for high net-worth clients in July 2018. Sizeable growth has been observed in SMAs on timeline basis as the same increased to Rs. 8.0b (end-Dec 2019: Rs. 6.0b; FY19: Rs. 3.2b; FY18: Nil) by end-January 2020. The company has total 130 mandates, out of which only 1 is non-discretionary. Management is targeting further growth in this segment, going forward. High net worth retail clients and large funds held by army back entities are potential avenues for growth in this segment.

Performance of all the funds, barring Islamic income fund, has depicted improvement during the ongoing year

Largest fund of the company, AWTIF, has consistently compared favorably in relation to the peers. Performance of all other funds was on the lower side vis-à-vis peers in FY19; however, improvement has been observed in relative performance of asset allocation fund and equity funds in HY20. AWTIF has consistently ranked in the 4th quartile during the period under review. As per management, lack of profitable deployment avenues for AWTIF has contributed to lower returns of the fund. Sustaining fund performance is considered important from ratings perspective.

Figure 3: Fund performance (based on 365 day return)

Fund Name	Relative Fund Performance Rankings				
	Jun 2018	Nov 2018	Jun 2019	Nov 2019	Dec 2019
AWT Asset Allocation Fund	6/9	7/10	9/10	5/11	6/11
AWT Income Fund	3/20	7/20	4/20	1/20	1/20
AWT Islamic Income Fund	14/18	16/18	16/20	17/20	18/20
AWT Islamic Stock Fund	20/20	16/16	13/17	1/15	1/15
AWT Stock Fund	19/21	17/20	18/20	5/23	10/24

Despite improvement in HY20, operating loss continues to persist, which have resulted in erosion in equity base

With withdrawal of considerable AUMs post acquisition of PIML by AWT, AWTIL has consistently reported an operating loss which has contributed to attrition in equity base. Operating loss of the company amounted to Rs. 80.3m (FY18: 77.9m) in FY19. Growth in core income was lower than the growth witnessed in operating expenses, which contributed to increase in the quantum of operating loss. Management fees was lower in FY19 on account of redemptions in mutual funds. However, additional income from SMAs contributed to an increase in core income during the outgoing year. Increase in operating expenses primarily pertained to higher salaries and wages expense.

Considerable growth has been noted in the core income in HY20 due to increase in mutual funds AUMs and SMAs. The same has resulted in improvement in profitability profile. Operating loss was reported at Rs. 29.8m in HY20. Provided that targeted growth in AUMs (both mutual funds and SMAs) materializes, management expects to breakeven during the ongoing year. Growth in AUMs and generation of operating profit is considered important from ratings perspective.

Figure 4: Income statement and balance sheet extract

(Rs. in millions)	FY18	FY19	HY20
Income Statement			
Core Income	24.5	31.4	27.8
<i>Management fees</i>	24.0	21.6	13.4
<i>Advisory</i>	-	4.2	9.3
<i>Profit on Bank deposits</i>	0.5	5.2	3.3
<i>Income on government securities</i>	0.04	-	1.9
Operating Expenses	(102.5)	(111.7)	(57.6)
Operating Profit/ (Loss)	(77.9)	(80.3)	(29.8)
Profit/(Loss) after tax	(100.2)	(97.0)	(15.8)
Balance Sheet (Extract)			
Paid up shares	250.0	350.0	350.0
Accumulated losses	(64.0)	(161.2)	(177.0)
Unrealized losses on AFS investments	(0.2)	-	-
Equity	185.8	188.8	173.0

Governance and control framework is considered adequate

During the outgoing year, Ms. Maleeha Bangash, an independent director, resigned as the member of the Board of Directors (BoD). Resultantly, one casual vacancy exists on the BoD. Two committees, namely Board Audit Committee and Board Board Human Resource Committee (BHRC) are present at Board level in order to ensure effective oversight. In line with best practices, the Board Audit Committee (BAC) is chaired by an independent director. Senior management team has been strengthened since last review and comprises seasoned professionals with necessary qualifications and experience. Presently, management has appointed Acting Head of Research on temporary basis and plans to appoint full-fledged resource for this position with growth in AUMs. No separate resource has been appointed for managing Assets under Management (AUMs) of Separately Managed Accounts (SMA). Given the sizeable growth in AUMs of SMAs, management may consider hiring a separate resource for managing the same and ensure segregation of Investment Committee (IC) of SMAs to avoid any conflict of interest.

FINANCIAL SUMMARY (Fund Performance)		Appendix I
<u>PIML Daily Reserve Fund</u>		
	FY18	FY19
Fund Size (in Rs. millions)	107.9	-
Return (%)	4.61%	-
Benchmark (%)	5.33%	-
Retail Proportion (% of Net assets)	0.6%	-
Ranking Against Peers	20/21	-
<u>AWT Income Fund (formerly : PIML Income Fund)</u>		
	FY18	FY19
Fund Size (in Rs. millions)	1,395.9	977.0
Return (%)	5.99%	9.28%
Benchmark (%)	6.32%	10.26%
Retail Proportion (% of Net assets)	26.2%	39.1%
Ranking Against Peers	3/20	4/20
<u>AWT Islamic Stock Fund (formerly: PIML Islamic Equity Fund)</u>		
	FY18	FY19
Fund Size (in Rs. millions)	111.5	86.9
Return (%)	-21.45%	-25.19%
Benchmark (%)	-9.59%	-25.19%
Retail Proportion (% of Net assets)	12.4%	6.1%
Ranking Against Peers	19/21	18/20
<u>AWT Islamic Income Fund (formerly: PIML Islamic Income Fund)</u>		
	FY18	FY19
Fund Size (in Rs. millions)	99.01	217.9
Return (%)	4.14%	7.22%
Benchmark (%)	2.46%	3.58%
Retail Proportion (% of Net assets)	32.3%	41.3%
Ranking Against Peers	14/18	16/20
<u>AWT Stock Fund (formerly: PIML Value Equity Fund)</u>		
	FY18	FY19
Fund Size (in Rs. millions)	113.3	85.1
Return (%)	-19.46%	-23.99%
Benchmark (%)	-10.00%	-19.11%
Retail Proportion (% of Net assets)	5.4%	3.5%
Ranking Against Peers	20/20	13/17
<u>AWT Asset Allocation Fund (formerly: PIML Asset Allocation Fund)</u>		
	FY18	FY19
Fund Size (in Rs. millions)	343.0	400.1
Return (%)	-12.15%	-13.44%

Benchmark (%)	-3.51%	-2.25%
Retail Proportion (% of Net assets)	4.5%	2.5%
Ranking Against Peers	6/9	9/10

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>		Appendix II
<u>BALANCE SHEET</u>	FY18	FY19
Paid Up Capital	250.0	350.0
Total Equity	185.8	188.8
<u>INCOME STATEMENT</u>		
Total Income	4.9	18.8
Profit/(Loss) Before Tax	(97.6)	(92.9)
Profit/(Loss) After Tax	(100.2)	(97.0)
<u>RATIO ANALYSIS</u>		
Net Cash Generated from Operating Activities	(73.8)	(84.5)
Current Ratio (x)	4.1	4.3
Gearing	-	-

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: MUTUAL FUNDS

These ratings/rankings are not a recommendation to buy, sell, or hold any investment, in as much as they do not comment as to the yield or suitability for a particular investor. Eventually the risk/reward trade-off should be solely determined by investors.

MANAGEMENT QUALITY RATINGS

AM1:

Asset manager exhibit Excellent management characteristics

AM2++, AM2+, AM2:

Asset manager exhibit Very Good management characteristics

AM3++, AM3+, AM3:

Asset manager exhibit Good management characteristics

AM4++, AM4+, AM4:

Asset manager exhibit Adequate management characteristics

AM5:

Asset manager exhibit Weak management characteristics

For harmony in notations, single plus (+) or double plus (++) have replaced notation of plus (+) or minus (-) to indicate the relative degree of strength within each category.

For companies undertaking Investment Advisory Services only, the Management Quality Rating Scale is appended with the suffix 'IA' to distinguish it from other Management Quality Ratings outstanding by VIS.

For companies undertaking REIT Management Services only, the Management Quality Rating Scale is appended with the suffix 'RMC' to distinguish it from other Management Quality Ratings outstanding by VIS.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.vis.com.pk/images/criteria_outlook.pdf

FUND PERFORMANCE RANKINGS

MFR 5-Star (top 10%) Very good performance

MFR 4-Star (next 22.5%) Good performance

MFR 3-Star (next 35%) Average performance

MFR 2-Star (next 22.5%) Below average performance

MFR 1-Star (last 10%) Weak performance

Being based on actual performance, no Outlook or Rating Watch can be assigned to fund performance rankings.

FUND STABILITY RATINGS

AAA(f)

Highest degree of stability in Net Asset Value; Risk is negligible with very low sensitivity to changing economic conditions.

AA+(f), AA(f), AA-(f)

High degree of stability in Net Asset Value; Risk is modest but may vary slightly from time to time because of changing economic conditions.

A+(f), A(f), A-(f)

Moderate degree of stability in Net Asset Value; Risk factors may vary with possible changes in the economy.

BBB+(f), BBB(f), BBB-(f)

Adequate degree of stability in Net Asset Value; Risk factors are considered variable if changes occur in the economy.

BB+(f), BB(f), BB-(f)

Low degree of stability in Net Asset Value; Risk factors are sensitive to changes in the economy.

B(f)

Very low degree of stability in Net Asset Value; Risk factors are capable of fluctuating widely if changes occur in the economy.

The fund stability rating scale of AAA to B is appended by the letter (f) to denote fund ratings and to differentiate it from the nomenclature used for issue and issuer ratings.

While no outlook is assigned to the fund stability rating, the same may be placed under 'Rating Watch' if VIS views that the status of the assigned rating is uncertain and there are conditions present that necessitate reevaluation of the assigned rating. VIS also designates direction, Positive, Negative or Developing, to ratings placed under 'Rating Watch'. This shows VIS's opinion regarding the likely direction of a rating. Developments in factors other than those that necessitated the 'Rating Watch' may result in a rating change, while the rating continues to be placed under 'Rating Watch'.

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REGULATORY DISCLOSURE		Appendix IV		
Name of Rated Entity	AWT Investments Limited (Formerly Primus Investment Management Limited)			
Sector	Mutual Funds			
Type of Relationship	Solicited			
Purpose of Rating	Management Quality Rating			
Rating History	Rating Date	Medium to Long Term	Outlook	Rating Action
	24-Apr-2020	AM3+	Stable	Reaffirmed
	18-Jan-2019	AM3+	Stable	Reaffirmed
	15-Dec-2016	AM3+	-	Rating Watch-Developing
	4-May-2016	AM3+	Positive	Harmonised
	31-Dec-2015	AM3	Positive	Reaffirmed
	18-Nov-2014	AM3	Positive	Reaffirmed
	13-Jan-2014	AM3	Positive	Maintained
	8-Jan-2013	AM3	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.			
Disclaimer	<p>Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.</p> <p>Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.</p>			
Due Diligence Meetings Conducted	S.No	Name	Designation	Date
	1.	Mr. Salman Haider Shaikh	CEO	February 25, 2020
	2.	Mr. Shahzad Dedhi	CFO	January 16, 2020
	3.	Mr. Basharatullah khan	CIO	January 16, 2020