

**PACRA COMMENTS | CORONAVIRUS | CAPITAL MARKETS**

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 170 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan’s economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government’s response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

<b>SECTOR</b>	<b>SUB-SECTOR</b>
<b>CAPITAL MARKETS</b>	<ul style="list-style-type: none"> <li>- <b>ASSET MANAGEMENT COMPANIES (AMC)</b></li> <li>- <b>MUTUAL FUNDS</b></li> </ul>
<b>SIZE</b>	<ul style="list-style-type: none"> <li>- Total industry Assets Under Management (AUM) as of end-Feb’20: PKR ~701bln, YoY increased by ~17%</li> <li>- Equity funds – 27% of AUMs</li> <li>- AUMs as percentage of total GDP ~1%</li> <li>- AUMs as percentage of Banking Deposits ~4%.</li> </ul>
<b>NUMBER OF PLAYERS</b>	<ul style="list-style-type: none"> <li>- AMCs: 19 (2 listed on PSX)</li> <li>- Mutual Funds: 238 (Equity 45, Income 51, MM 28, Others 114).</li> </ul>
<b>PACRA PENETRATION</b>	<ul style="list-style-type: none"> <li>- PACRA rates 13 AMCs</li> <li>- PACRA rated AMCs manage ~ 71% of total AUMs.</li> </ul>
<b>IMPACT</b>	<ul style="list-style-type: none"> <li>- KSE-100 index has lost ~20% value since March 1, 2020, though the market has stabilized a bit</li> <li>- Equity Funds may face redemption pressure. However, historically, investors tend to hold on during falling days. Once stabilized, valuations may attract fresh inflow</li> <li>- Regulator and PSX making pro-active efforts to keep markets operational and trade volumes remain intact. This, combined with adequate liquidity in mutual funds, should help manage any redemption pressure</li> <li>- Money Market and Income Funds have corporates and businesses as major investors. Given impending liquidity challenges for various sectors of the economy, fresh inflow is expected to slow down. The quality of underlying assets in these funds (pre-dominantly government securities and bank deposits) to keep them in strong position to manage redemptions, if needed</li> <li>- SECP measures to support industry by extending maximum period of borrowing by mutual funds for redemption purposes from existing 90 days to 360 days to provide some respite. Aligning criteria for recognition of credit event in case of debt instruments (TFCs/Sukuk etc.) with banking industry to be beneficial</li> <li>- AMCs adequately poised to manage looming challenges. Technology and alternative service channels to keep customer service and operations flowing</li> <li>- AMCs to have lower fee income and constrained profitability. Prolonged downturn and/or extensive interest rate cuts to limit flow. Limited equity base and available cushions may constrain certain small and medium sized AMCs.</li> </ul>

**DISCLAIMER**

PACRA has taken due care while formulating this analysis. We have used the information that we believe is reliable and current as to the date of publication. In any case, this remains an opinion and suitability may vary. Due care should be taken while relying on it. The press release may be used in full or in part without changing the meaning or context thereof with due credit to PACRA.

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