RATING REPORT

AKD Securities Limited

REPORT DATE:
13 October, 2015

RATING ANALYSTS:
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RATING DETAILS

	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A+	A-2
Rating Outlook	Stable	
Rating Date	9 October, 2015	

COMPANY INFORMATION

Incorporated on 16th May 2007	External auditors: **Riaz Ahmed and Company Chartered Accountants**
Public Limited Company	Chairperson of the Board: **Hina Junaid**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Muhammad Farid Alam, FCA**
Aqeel Karim Dhedhi Securities Private Limited	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria
Methodology – Securities Firms Rating (May 2015)
http://www.jcrvis.com.pk/Images/Securities%20methodology%201%20-2015.pdf

AKD Securities Limited

OVERVIEW OF THE INSTITUTION

AKD Securities Limited is a public limited company incorporate under the Companies Ordinance, 1984. The company is a TREC holder of Karachi Stock Exchange and a wholly owned subsidiary of Aqeel Karim Dhedhi Securities (Pvt.) Limited, through direct and beneficial ownership.

RATING RATIONALE

AKD Securities Limited (AKDSL) is a wholly owned subsidiary of Aqeel Karim Dhedhi Securities (Pvt.) Limited (AKDSPL). The company provides services to clients in the form of equity brokerage for domestic (retail and institutional) and foreign investors, investment banking and research. AKDSL operates with an adjusted net worth of Rs. 2.0b and a sizeable asset base of Rs. 4.5b. The company is a pioneer in the brokerage market operating the first and largest online trading platform in Pakistan. This has allowed the company to exert their foothold in the Pakistani market with a share of 12.68% for FY15 (FY14: 10.78%). The ratings of the company are derived from strong market share in the brokerage sector with bottom line support being provided from corporate advisory revenue. The company's standing however is adversely affected by a sizeable portion of unsecured receivables due over 5 years with minimal collateral set against them. However, the sponsors have mitigated this risk by providing personal guarantee.

AKDSL comprises an experienced group of individuals in senior management positions who have attained these positions through internal promotions. The Company has in place adequate bonuses and incentives to gain further educational qualifications.

Improvement in profitability in recent years is derived from growth in brokerage and corporate advisory performance. The brokerage arm provides 60% of revenues generated by the company, stemming primarily from the online trading portal, AKD Trade. Growth in retail clients on the online system has been witnessed year on year with numbers passing 14,000 by end FY15. It has been labeled as the driver for future growth in the company. Active Foreign investor trading on the Karachi Stock Exchange (KSE) during FY15 further positively impacted brokerage income as commission emanating from the same nearly quadrupled to Rs. 59m in FY15 (FY14: Rs15m). AKDSL further provides Corporate Advisory services to institutional clients in the form of suggestions as to methods on raising funds through equity or debt, balance sheet structure and on mergers & acquisitions. The company primarily focuses on raising funds through the capital markets via Initial Public Offerings (IPOs), Offer for Sale (OFS), Private Equity and Secondary Rights' Issue. In the last 5 years the Corporate Advisory department conducted a majority of all offerings (yearly), both primary and secondary.

Receivables on the balance sheet of AKDSL though improving is a sizeable proportion of the asset base (FY15: 29%, FY14: 32%, FY13: 56%). Trade Debts of the company at end FY15 amounted to Rs. 1.3b (FY14: Rs. 1.3b) of which Rs. 444m are due from the related party (FY14: 269m). Of the remaining trade debts, 94% have been due for over 5 years, arising from the market crash of 2008. Though recoveries have been witnessed in the last few years, there is no time line to improve trade debt aging. In recent years it has been the company's policy to suppress the use of a proprietary book. Though sizeable at one point at end FY10 (Rs. 2.4b), short term investments have decreased to Rs. 141m at end FY15. The decision stems from losses the company faced on their own investments during the market crash with the company preferring to remain risk averse. Management has made a strategic decision to operate on a debt free basis, reducing finance costs to improve the bottom line which was done by internal cash generation, recovery of trade debt and by decreasing the size of the proprietary book. Total debt levels of the company have significantly fallen since FY13 with gearing moving to 0.10x at end FY15 from 2.29x for FY13.

The company has one subsidiary investment in an Exploration & Production company called Oil & Gas Investments Limited (OGIL). AKDSL holds 50% stake in OGIL, purchased from their parent company and valued at Rs. 1.75b at end FY15. Currently, OGIL is operating in losses with no fixed timeline in place to turn a profit. Debt repayments due to National Bank of Pakistan (NBP) have recently been rescheduled, in-line with those due by the sponsor company. OGIL is being held to diversify AKD Group portfolio into the energy sector with future profits projected to be substantial in size.

The company's performance remains dependent on market movements and active trading from clients. Operating the largest online trading platform, with potential to grow, has brought a stable base to the bottom line with improved corporate advisory income, a bonus. Operating an almost non-existent proprietary book shrinks the bottom line of the company in comparison to its peer, but does provide the added safety of lower risk levels. With projected corporate advisory income for FY16 expected to be lower than current levels, the company will look to retail growth as the main driver for improved profitability.

AKD Securities Limited

FINANCIAL SUMMARY *(amounts in PKR millions)*			**Appendix II**
BALANCE SHEET	**30-Jun-15 (Un-audited)**	**30-Jun-14**	**30-Jun-13**
Trade Debts	1,300.96	1,315.70	3,192.09
Long Term Investments	1,790.07	1,790.07	1,790.07
Short Term Investments (Prop. Book)	140.62	52.06	370.19
Cash and Bank balances	150.05	383.06	183.12
Total Assets	**4,478.13**	**4,064.00**	**5,755.91**
Trade and Other Payables	980.99	738.35	1,861.24
Interest Bearing Debt	202.57	367.40	2,342.24
Short Term running finance	-	103.04	1,522.54
Advance against Share Capital	1,378.70	1,378.70	-
Net Worth	1,465.67	1,125.75	1,023.19
Total Adjusted Equity	1,994.30	-	-
INCOME STATEMENT	**30-Jun-15 (Un-audited)**	**30-Jun-14**	**30-Jun-13**
Total Revenue	505.48	329.70	220.14
Administrative Expenses	274.07	112.69	78.29
Finance Costs	28.62	120.49	177.85
Profit Before Tax	339.93	110.83	248.43
Profit After Tax	**339.93**	**87.50**	**209.85**
RATIO ANALYSIS	**30-Jun-15***	**30-Jun-14**	**30-Jun-13**

Market Share (Share Turnover) (%)	12.68%	10.78%	10.92%
Commission Income / Turnover (Paisa/Share)	4.44	3.82	2.96
Liquid Assets to Total Liabilities	9.59%	14.70%	11.56%
Liquid Assets to Total Assets	6.44%	10.61%	9.50%
Debt Leverage	0.82	2.61	4.63
Gearing	0.10	0.33	2.29
Efficiency (%)	54.22%	78.83%	88.40%
ROAA (%)	11.22%	1.78%	3.54%
ROAE (%)	23.7%	8.14%	24.99%

**Ratios as of 30th June 2015 are calculated using Adjusted Equity*

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix III

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-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.jcrvis.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.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	**Appendix IV**
Name of Rated Entity	AKD Securities Limited
Sector	Brokerage
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below
Instrument Structure	N/A
Statement by the Rating Team	JCR-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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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
10/9/2015	A+	A-2	Stable	Initial