RATING REPORT

AKD Securities Limited

REPORT DATE:
October 1, 2019

RATING ANALYSTS:

Talha Iqbal
talha.iqbal@vis.com.pk

Muhammad Tabish
muhammad.tabish@vis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long -term	Short -term	Long -term	Short -term
Entity	A	A-2	A	A-2
Rating Outlook	Stable		Stable	
Rating Date	September 27, 2019		January 19, 2018	

COMPANY INFORMATION	
Incorporated on 16th May 2007	External auditors: **Riaz Ahmed and Co. Chartered Accountants**
Public Limited Company	Chairperson of the Board: **Mrs. Hina Junaid**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Mr. Muhammad Farid Alam**
- Aqeel Karim Dhedhi Securities (Pvt.) Limited: 100%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017)   ***http://vis.com.pk/docs/Securities%20Firms%20201706.pdf***

AKD Securities Limited

OVERVIEW OF THE INSTITUTION

AKD Securities Limited (AKDSL) was incorporated in 2007 under the Companies Ordinance 1984 as a public limited company. AKDSL is primarily engaged in corporate advisory and equity brokerage. The company, through direct and beneficial ownership, is a wholly-owned subsidiary of Aqeel Karim Dhedhi Securities (Pvt.) Limited (AKDSPL).

Profile of Chairperson

Mrs. Hina Junaid has been a part of AKDSL since 2007 and is accredited with the establishment of AKD Commodities (Pvt.) Limited. Mrs. Junaid has extensive experience in client portfolio management, equity sales and business development, focusing primarily on domestic institutions and HNWIs. Mrs. Junaid works with charitable cause and social welfare projects for women empowerment, children's education, medical research and poverty alleviation.

Profile of CEO

Mr. Muhammad Farid Alam has been CEO of AKDSL for the past 10 years. He has over 20 years' of experience in the finance sector having begun his career with Crescent Investment Bank Limited which was the first investment bank incorporated in Pakistan. He is a fellow member of the Institute of Chartered Accountants of Pakistan (ICAP).

RATING RATIONALE

Operating in the broking business for over 12 years, AKD Securities Limited (AKDSL) is primarily engaged in provision of equity brokerage services catering to domestic retail and high net worth (HNWI) clients, local institutions and foreign broker dealers. Alongside, the company also provides corporate advisory services. AKDSL runs business operations through its head office based in Karachi along with a network of six branches spread nationwide.

<u>Key Rating Drivers:</u>

Brokerage industry continues to be affected by economic cycles. Declining trend in trading volumes over the last two years has impacted topline of the brokerage industry.

Performance of the equity market has remained dismal over the past two fiscal years with dwindling trading volumes largely owing to economic slow-down, increasing interest rate environment and aggressive foreign selling. Decline in market volumes was more pronounced for ready market as compared to future market, where volumes remained stagnant. Given tough market conditions, players with efficient and variable cost structure along with diversified revenue streams managed to remain profitable. On the other side, players with large proprietary books witnessed losses given weak market performance.

PSX Data (Ready + Future)	Volumes (m)	Value (m)
FY17	100,345	4,756,168
FY18	58,401	2,881,120
% change in FY18	**-42%**	**-39%**
FY19	53,515	2,353,988
% change in FY19	**-8.4%**	**-18.3%**

Going forward, focus of brokerage companies remains on cost rationalization, strengthening retail client base and focus on higher margin business. Moreover, given low base effect of ready market volumes & growing volumes in the future segment, improved valuations post two consecutive years of decline in benchmark index, overall market volumes during FY20 are expected to be higher vis-à-vis FY19 & FY18.

Market share has been retained on the back of strong retail franchise which provides sustainability to operations. Retail expansion remains core pillar of future strategy.

AKDSL is among the leading players in retail broking business. Despite shrinking market volumes over the past two fiscal years, the company was able to maintain its market share at around 10%. As per management, AKDSL has a strong retail clientele of over 20,500 clients (around 73% clients are active). Retail clientele contributed around three-fourth of the total equity brokerage revenue. Retail clients are provided services through branches and online trading portal. Going forward, management plans to continue focusing on the growth of retail operations through addition of new branches. Since last review, two branches have been added in the north region (Abbottabad & Faisalabad) while one branch was added in Karachi. Furthermore, the management plans to set up a branch in Peshawar also.

Foreign institutional business has remained on the lower side due to declining trading volumes in the backdrop of anticipated rupee devaluation over the last 2 years. However, with the expected induction of a new foreign broker dealer during 1HFY20 and improvement in foreign participation, foreign brokerage income is expected to improve from FY19 levels despite the exit of a broker dealer as part of its global strategy to exit from equities.

Number of Clients	FY19	FY18	FY17
Domestic Institutions & HNWIs	367	370	353
Domestic Retail	16,940	16,190	7,915
Foreign Institutions	86	79	18
Total	**17,393**	**16,639**	**8,286**

In absolute terms, corporate finance income remained around prior level in FY19. Management expects revenues to depict healthy growth in the ongoing year given present mandates in the pipeline and expected materialization of ongoing marketing activities into mandates with improvement in economic and market outlook.

Operating revenue has witnessed a decline post FY17 due to depressed market volumes; however, the company has managed to remain in operating profits. Overall profitability was impacted by re-measurement losses on short-term investments.

In line with industry trend, AKDSL's operating revenue has witnessed a decline post FY17 due to depressed market volumes while reporting at Rs. 299.7m (FY18: Rs. 322.2m; FY17: Rs. 452.5m) during FY19. The decrease in revenues was a function of lower commission per share (due to decline in share prices) and dip in commission charged. Brokerage income continues to contribute more than four-fifth to operating revenue while consultancy, underwriting commission and dividend income account for the remaining portion.

Efficiency ratio (cost to recurring income ratio) depicted an improvement in FY19 to 81.5% (FY18: 90.2%) in FY19 primarily on account of focused management of expenses and higher recurring other income. Administrative expenses were reported at Rs. 342.3m (FY18: Rs. 366.7m) in FY19. In absolute terms, operating profit increased Rs. 82.7m (FY18: Rs. 46.0m) in FY19. However, accounting for the considerable revaluation loss of Rs. 253.7m, the company reported a loss before tax of Rs. 185.0m (FY18: profit of Rs. 200.7m; FY17: profit of Rs. 87.9m).

Low leveraged capital structure and adequate liquidity profile; market risk remains high on account of sizeable short term investments

Market Risk: In FY18, AKDSL divested its long-term investment in Oil & Gas Investment Limited and sold its held shares to the holding company (AKDSPL); as a result, long-term investments declined to Rs. 21.4m (FY17: Rs. 393.0m) in FY18. The same further declined to Rs. 14.1m at end-June 2019 on account of fair value adjustment of PSX shares. Short term investments, followed by deposits and prepayments, form the second largest proportion (26.3%) of total asset base with major investments in three quoted scrips. Value of short-term investments has witnessed further decline post end-June 2019.

Liquidity Risk: Liquid assets have decreased from Rs. 986.6m in FY18 to Rs. 572.0m in FY19. The same after adjusting for strategic short term investments were reported lower at Rs. 224.0m at end-FY19.
Credit Risk: Trade debts have depicted a declining trend amounting to Rs. 103.8m (FY18: Rs. 115m; FY17: Rs. 434.3m) at end-June 2019. Overdue trade debts have been provided for while adequate collaterals are in place against remaining trade debts

Equity base of the company has decreased to Rs. 1.2b (FY18: Rs. 1.4b; FY17: Rs. 1.3b) at end-FY19 on account of losses incurred in FY19. Leverage indicators are expected to remain within manageable levels over the rating horizon.

Corporate governance structure
Senior management team has largely remained stable while a few new additions have been undertaken in the senior management team. Board of Directors comprises professionals having experience in the financial services sector; however, room for improvement exists in board level governance in terms of board size and independent directors.

FINANCIAL SUMMARY *(amounts in PKR millions)*			Appendix I
BALANCE SHEET	**30-Jun-19**	**30-Jun-18**	**30-Jun-17**
Trade Debts	103.8	115.2	434.3
Long Term Investments	14.1	21.4	393.0
Short Term Investments	541.4	669.0	79.5
Cash and Bank balances	30.6	317.6	161.2
Total Assets	2,054.8	2,524.4	2,613.9
Trade & Other Payables	840.5	1,113.1	1,156.7
Interest Bearing Debt	15.9	20.2	95.4
Short Term running finance	-	-	-
Total Liabilities	856.5	1,133.3	1,280.0
Advance against Share Capital	-	-	768.7
Adjusted Equity	1,187.5	1,373.0	719.2
INCOME STATEMENT	**30-Jun-19**	**30-Jun-18**	**30-Jun-17**
Total Revenue	159.8	631.4	653.0
Administrative Expenses	342.3	366.7	488.7
Finance Costs	2.5	5.5	9.5
Profit Before Tax	(185.0)	259.2	154.8
Profit After Tax	(185.4)	200.7	87.9
RATIO ANALYSIS	**30-Jun-19**	**30-Jun-18**	**30-Jun-17**
Liquid Assets to Total Liabilities (%)	66.8%	87.1%	18.8%
Liquid Assets to Total Assets (%)	27.8%	39.1%	9.2%
Adjusted Debt Leverage (x)	0.7	0.8	1.8
Adjusted Gearing (x)	0.01	0.01	0.13
Efficiency (%)	81.1%	90.2%	92.7%
ROAA (%)	-8.1%	7.8%	2.6%
ROAE (%)	-14.5%	19.2%	12.2%

ISSUE/ISSUER RATING SCALE & DEFINITION Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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

(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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 III

Name of Rated Entity	AKD Securities Limited
Sector	Brokerage
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
9/27/2019	A	A-2	Stable	Reaffirmed
1/19/2018	A	A-2	Stable	Reaffirmed
8/2/2016	A	A-2	Stable	Downgrade
1/6/2015	A+	A-2	Rating Watch-Negative	Maintained
10/9/2015	A+	A-2	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.
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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