

RATING REPORT

AKD Securities Limited

REPORT DATE:

November 30, 2020

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long -term	Short -term	Long -term	Short -term
Entity	A+	A-1	A	A-2
Rating Outlook	Stable		Stable	
Rating Date	November 30, 2020		September 27, 2019	

COMPANY INFORMATION

Incorporated on 16th May 2007

External auditors: **Riaz Ahmad 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 Dhedbi 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 HNWTs.

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

AKD Securities Limited (AKDSL) is primarily engaged in provision of equity brokerage services catering to domestic retail and high net worth (HNWT) clients, local institutions and foreign broker dealers. The company also provides corporate advisory services. AKDSL runs business operations through its head-office based in Karachi in addition to a network of 6 branches situated across 4 cities in Pakistan.

Key Rating Drivers:

Improved volumes strengthen brokerage income

- In FY20, the stock market volumes improved, mainly on account of the index volatility experienced during the period.
- This led the overall PSX volume to clock in at 68,017Mn in FY20, up by 27% YoY.
- Resultantly, the brokerage industry benefitted from the improved brokerage income.

PSX Data (Ready + Future)	Volumes (m)	Value (m)
FY18	58,401	2,881,120
FY19	53,515	2,353,988
% change in FY19	-8%	-18%
FY20	68,017	2,551,578
% change in FY20	27%	8%

- Going forward, focus of the brokerage companies remains on cost rationalization and strengthening retail client base.
- Income from corporate advisory is expected to increase as the economy starts to recover in FY21.

Improvement in market positioning has been noted. Retail expansion remains core pillar of future strategy.

- AKDSL is among the leading players in the brokerage industry. Market share of AKDSL improved to 11.1% in FY20 (FY19: 9.7%).
- As illustrated in the table below, the recurring income of the company grew by 78% in FY20. The income breakup also indicates increased diversification

Revenue Breakup	FY19	FY20	FY19	FY20
Brokerage Income	257	419	60%	55%
Consultancy Income	29	71	7%	9%
Underwriting Commission	6	19	2%	2%
Other Income	127	249	2%	0%
Dividend Income	7	1	30%	33%
	427	758		

- AKDSL has a sizable clientele of 19,901 clients, increasing from 17,393 in the

preceding year.

Number of Clients	FY18	FY19	FY20
Domestic Institutions & HNWI's	370	367	846
Domestic & Foreign Retail	16,190	16,940	18,996
Foreign Institutions	79	86	59
Total	16,639	17,393	19,901

- Retail clientele contributed around 63% of the total equity brokerage revenue. Furthermore, about third fourth of the brokerage revenue emanates from online trading activity.
- In FY20, AKDSL posted strong growth income from consultancy and underwriting activities, wherein the revenues more than doubled during the period. This was on account of various right share and TFC/sukuk issuance transactions. Management expects revenues to post growth in the ongoing year given present mandates in the pipeline and improved economic outlook.
- Foreign institutional business has remained on the lower side. However, with the expected induction of 2 new foreign brokers recently, foreign brokerage income is expected to improve going forward. Simultaneously, SBP's initiative of Roshan digital account is also expected to help in strengthening the foreign brokerage income.
- Notable improvement was noted in 'Other Income'; this broadly includes mark-up on loan from holding company (37%), Profit on exposure with exchange (30%) and profit on bank deposits (16%).

Operating efficiency has increased on account of higher topline revenue

- Given the growth in topline revenue, in addition increased revenue from consultancy and underwriting activities, the company's recurring revenues improved notably.
- Consequently, efficiency ratio (cost to recurring income ratio) improved in FY20 to 51.9% (FY19: 80.7%).

Profit & Loss (Extract)	FY18	FY19	FY20
Brokerage Income	271.8	256.9	418.6
Consultancy Income	29.5	29.1	71.3
Underwriting Commission	19.9	6.4	18.9
Dividend Income	1.1	7.2	0.6
Gain on sale of securities	56.6	(11.2)	(24.8)
Fair value on remeasurement through P&L	(4.7)	(253.7)	84.8
Other Income	257.3	127.3	248.7
Total Revenue	631.4	162.0	818.0
Admin Expense	366.7	341.9	389.7
Finance Cost	5.5	2.5	3.5
PBT	259.2	(182.4)	424.9

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

Market Risk: Currently AKDSL has no long term investment while the short term investments increased to 696.8Mn as at FY20. Short term investments are 47% of the Net Equity of AKDSL. Bulk of the short term investment portfolio is invested in higher risk small cap stocks.

Liquidity Risk: Liquid assets have increased to Rs. 2,185.4mn as at FY20 including Cash, Short term investments and Short term deposits. It makes around 135% of the Total Liabilities held at FY20 (156.4% in FY19).

Credit Risk:

Gross trade debts surged to 243.8mn in FY20 out of which 233mn is from brokerage business. 90% of the trade debts of brokerage

Trade Debts (FY20)	Aging less than 14 days	Aging more than 14 days	Receivable Amount
Brokerage	24	210	233
%	10%	90%	100%

services are outstanding for more than 14 days, translating in increased credit risk. As per the management, these amounts pertain to select large-sized institutional accounts, wherein amounts are settled on monthly basis. Outstanding provisioning of trade debts remained unchanged at Rs. 129mn in FY20.

Equity base of the company has increased to Rs. 1.5bn in FY20 (FY19: 1.15bn) on account of a drop in accumulated losses due to higher Net income earned by the company in the year. Leverage indicators are expected to remain within manageable levels over the rating horizon.

Balance Sheet (Extract)	Jun'19	Jun'20
Net Equity	1157.2	1500.6
Paid up Capital	1767.7	1767.7
Reserves	(621.3)	(277.9)
Debt	15.9	21.3
Adjusted Gearing	0.78	1.09
Adjusted Leverage	0.01	0.01

Corporate governance structure

Senior management team has remained stable with no 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.

BALANCE SHEET			
	30-Jun-18	30-Jun-19	30-Jun-20
Trade Debts	115.2	97.0	114.7
Long Term Investments	21.4	0	0
Short Term Investments	669.0	555.4	696.8
Cash and Bank balances	317.6	31.2	41.7
Total Assets	2,524.4	2,050.7	3,119.3
Trade & Other Payables	1,113.1	873.6	1,537.2
Liab. Against asset sub. to fin. lease	20.2	15.9	21.2
Short Term running finance	-	-	-
Total Liabilities	1,133.3	893.5	1,618.7
Paid-up Capital	1,767.7	1,767.7	1,767.7
Adjusted Equity	1,373.0	1,146.4	1,489.8
INCOME STATEMENT			
	30-Jun-18	30-Jun-19	30-Jun-20
Total Revenue	631.4	162.0	818.0
Administrative Expenses	366.7	342.3	342.3
Finance Costs	5.5	2.5	3.5
Profit Before Tax	259.8	182.4	424.9
Profit After Tax	200.7	(226.5)	343.4
RATIO ANALYSIS			
	30-Jun-18	30-Jun-19	30-Jun-20
Liquid Assets to Total Liabilities (%)	170.4%	156.4%	135.0%
Liquid Assets to Total Assets (%)	76.5%	68.2%	70.1%
Adjusted Debt Leverage (x)	0.83	0.78	1.09
Adjusted Gearing (x)	0.01	0.01	0.01
Efficiency (%)	64.2%	80.7%	51.9%
ROAA (%)	7.8%	-9.9%	13.3%
ROAE (%)	19.2%	-18.0%	26.1%

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	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	11/30/2020	A+	A-1	Stable	Upgrade
	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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Due Diligence Meetings Conducted	Name	Designation		Date	
	Mr. Tanveer Hussain Khan	CFO		September 29, 2020	
	Naveed Vakil	COO			
	Khurram Shahid	Head Investment Banking			