

RATING REPORT

AKD Securities Limited

REPORT DATE:

November 22, 2021

RATING ANALYSTS:

Asfia Aziz

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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-1
Rating Outlook	Rating Watch- Positive		Stable	
Rating Date	November 22, 2021		November 30, 2020	
Rating Action	Maintained		Upgrade	

COMPANY INFORMATION

Incorporated on 16 th May 2007	External auditors: Riaz Ahmad and Co. Chartered Accountants
Public Limited Company	Chairperson of the Board: Ms. Hina Junaid
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Muhammad Farid Alam
- AKD Group Holdings (Pvt.) Limited: 100%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020)

<https://docs.vis.com.pk/docs/SecuritiesFirm202007.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 AKD Group Holdings (Pvt) Limited.

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 HNWI's. 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 (HNWI) 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 5 cities in Pakistan. The company is actively pursuing a branch expansion strategy whereby it plans to add three more branches in the ongoing year particularly focusing on untapped areas including Baluchistan, KPK and second tier cities of the other two provinces.

Proposed merger with BIPL Securities Ltd (BIPLS)

Assigned rating incorporates the proposed merger with BIPLS. As of June 28, 2021, AKDSL has acquired 77.12% shareholding along with management control in BIPLS, qualifying as a subsidiary of the company. Post this acquisition, it has been planned that AKDSL will be merged with and into BIPLS, whereby all respective assets and liabilities of AKDSL will be merged with and into BIPLS in exchange for issuance of ordinary share of BIPLS to the shareholders of AKDSL on the basis of a swap ratio of 2.59 shares. The scheme of arrangement has been approved by respective Boards and is currently under regulatory approvals. Upon sanction of the scheme, the name of the surviving entity, BIPLS, will be changed to "AKD Securities Ltd". The merger is expected to be completed by December 2021. Till the time merger is completed, SECP has granted relaxation against holding two TRE Certificates and licenses by an entity or sponsor under the regulatory framework.

Key impacts of the merger are mentioned as follows:

By way of intended merger, AKDSL will become one of the largest full suite brokerage house. Total market share of the merged company is projected to report at around 17-18%. AKDSL, on a standalone basis has a market share of 12.6% in FY21.

- The merger will provide support to AKDSL to fast track its branch expansion strategy. Total branch network shall expand to 15 branches including 9 branches of BIPLS. AKDSL's current client base of around 25,000 is expected to double to around 50,000 post-acquisition with a major proportion of the same encompassing retail clients.
- A larger asset and equity base is expected to provide greater opportunities for the company to boost profitability.

Following are some key **financial indicators of BIPL securities:**

BALANCE SHEET	31-Dec-19	31-Dec-20	30-Jun-21
Total Assets	1,896.0	2,680.7	2,597.1
Trade and Other Payables	974.8	1,695.1	1,403.9
Long Term Loans	150.0	150.0	150.0
Short Term Loans - Secured	-	40.0	100.0
Total Liabilities	1,142.6	1,898.5	1,662.8
Net Worth	753.4	782.2	934.3
INCOME STATEMENT	31-Dec-19	31-Dec-20	30-Jun-21
Brokerage Income	237.0	434.8	314.9

Administrative Expenses	(311.8)	(344.1)	(210.5)
Profit/(Loss) Before Tax	(14.9)	138.0	161.6
Profit/(Loss) After Tax	(11.9)	94.0	112.5

Key Rating Drivers:

PSX volumes witnessed a sizeable jump in the outgoing fiscal year. Thus, positively impacting the profitability profile of the brokerage industry.

After two consecutive years of dismal trading activity, volumes of PSX rebounded with a year-on-year growth of 32% in FY20 and a sizeable jump of 144% in FY21. This increase in trading volumes was mainly due to an uptick in economic activity and sustained recovery following the ease of lockdown after first wave of Covid-19 while pandemic-induced market volatility and lower prevailing interest rates also attracted investors, thus supporting trading volumes. Accordingly, in tandem with trading volumes, brokerage revenues grew across the industry. This supported the profitability of brokerage companies, some of which had slipped into losses during the 3-year period FY17-19.

Table: Industry Trading Metrics

PSX Data (Ready + Future)	FY18	FY19	FY20	FY21
Volume (In Billions)	58	55	68	166
Value (In Billions)	2,881	2,235	2,574	6,916

Steps taken by SECP & PSX seem to be supportive with respect to ease of doing business and are expected to boost investors' confidence. Outlook for the brokerage industry is considered favorable.

New regulations in the industry include SECP's capital market reforms, wherein small-sized brokerage houses shall not be allowed custody of customer's assets. Further, SECP has made a commission slab to a minimum of 3 paise (or 0.15% of traded value) and maximum of 2.5% of traded value. This facilitated in promotion of a healthy competition and supported profitability profile of the brokerage sector. The number of Initial Public Offerings (IPOs), which dropped in FY20, was followed by 8 IPOs in FY21, raising a sum of Rs. 14b, which was the highest sum mobilized by corporates in 14 years, with the previous best being 12 transactions on FY07. Inclusive of debt issuances, total capital raised during FY21 amounted to Rs. 31b.

SECP has simplified account opening process by allowing brokers to complete the whole process online. Moreover, the regulator is currently in the process of streamlining KYC & AML compliance regulations. Furthermore, PSX has launched several Exchange Traded Funds (ETF's) and Murabaha Share Financing (MSF), which allow investors access to lower cost asset management along with access to credit. Going forward, growth in overall economic indicators and major steps taken by SECP & PSX to boost investors' confidence will further increase the trading activity on PSX over next 2-3 years and outlook for the brokerage industry is considered favorable for the medium-term.

Improvement in market positioning has been noted. Retail expansion remains core pillar of future strategy which will also be supported by the retail base of BIPL securities.

AKDSL is among the leading players in the brokerage industry. Market share of AKDSL improved to 12.1% in FY21 (FY20: 9.7%) in value terms and 11.7% (FY20: 11.6%) in volume terms. As illustrated in the table below, the recurring income of the company grew by 2.5 times in FY21. The income breakup also indicates increased diversification with advisory income comprising 24% (FY20: 10%) of the total income in FY21.

Revenue Breakup	FY20	FY21	FY20	FY21
Brokerage Income	434	1,081	59%	58%
Consultancy Income	71	436	10%	24%
Underwriting Commission	19	48	3%	3%
Other Income	208	229	28%	12%
Dividend Income	1	61	0%	3%
	733	1,854		

AKDSL has a sizable clientele of 33,286 clients, increasing from 19,901 in the preceding year.

Number of Clients	FY19	FY20	FY21
Domestic Institutions & HNWI's	367	846	2,365
Domestic & Foreign Retail	16,940	18,996	30,666
Foreign Institutions	86	59	255
Total	17,393	19,901	33,286

About 78% of the brokerage revenue emanates from online trading activity. Retail proportion of the brokerage income increased to 85% (FY20: 69%) in FY21. In FY21, AKDSL posted strong growth income from consultancy and underwriting activities, wherein the revenues quadrupled during the period. This was on account of various right share, TFC/sukuk issuance and IPO transactions. Major advisory and underwriting clients include The Organic Meat Company, Ghani Global Holdings, Mughal Steel, Flying Cement, BYCO Industries, Gas & Oil, International Packaging, and Al-Shaheer Corporation. 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, SBP's initiative of Roshan digital account is expected to help in strengthening the foreign brokerage income base. Improvement was also noted in 'Other Income'; this broadly includes profit on deposits (52%) and markup on loan from related parties (26%). Given improvement in equity prices, the company also recorded a capital gain on sale of securities amounting Rs. 2b and fair value gain on re-measurement amounting Rs. 778m. Consequently, total revenue of the company increased to Rs. 4.6b (FY20: Rs. 806m) during FY21.

Operating efficiency has increased on account of higher topline revenue

Given the growth in topline revenue and increased revenue from consultancy and underwriting activities, the company's recurring revenues improved notably. Consequently, efficiency ratio (cost to recurring income ratio) improved in FY21 to 50.7% (FY20: 81.8%). Maintaining low cost to income ratio is important for ratings.

Profit & Loss (Extract)	FY19	FY20	FY21
Brokerage Income	256.9	434.3	1,081.2
Consultancy Income	29.1	71.3	435.7
Underwriting Commission	6.4	18.9	47.5
Dividend Income	7.2	0.6	60.5
Gain on sale of securities	(11.2)	136.7	2,022.9
Fair value on re-measurement through P&L	(253.7)	(63.5)	778.1
Other Income	127.3	207.6	228.6
Total Revenue	162.0	805.8	4,654.5
Admin Expense	341.9	423.7	818.3
Finance Cost	2.5	5.8	5.6
PBT	(182.4)	376.3	3,830.6

Low leveraged capital structure and adequate liquidity profile; market risk continues to be on the higher side led by sizeable book of short-term investments.

Market Risk: AKDSL's long-term investment increased to Rs. 2.1b (FY20: Rs. 7.5m) at end-FY21 largely comprising acquisition of strategic stake in BIPLS. Short-term investments portfolio increased sizably to Rs. 3.2b (FY20: Rs. 698m) as at FY21. Short-term investments are 72.3% (FY20: 50.2%) of the Net Equity of AKDSL. Market risk on this portfolio is considered to be high given bulk of the short-term investment portfolio being invested in higher risk small cap stocks.

Liquidity Risk: Liquid assets have increased to Rs. 7.1b (FY20: Rs. 2.2b) as at FY21 including Cash, Short term investments and Short term deposits. It makes around 187% of the Total Liabilities held at FY21 (138% in FY20).

Credit Risk:

Gross trade debts surged to 277.5m in FY21 out of which 256m is from brokerage business. 77% of the trade

Trade Debts (FY21)	Aging less than 14 days	Aging more than 14 days	Receivable Amount
Brokerage	57.6	198.2	255.8
%	23%	77%	100%

debts of brokerage 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. Provisioning of trade debts increased at end-FY21 on account of implementation of IFRS standards and change in formulas.

Equity base (adjusted for fair value adjustment) of the company has increased to Rs. 4.4b at end-FY21 (FY20: 1.4b) being a function of higher operating profitability and capital gain on sale of securities. Leverage indicators have increased at end-June'21 on account due to drawdown of Rs.

Balance Sheet (Extract)	Jun'20	Jun'21
Net Equity	1,390.6	4,399.6
Paid up Capital	1,767.7	1,767.7
Reserves	(377.1)	2,631.9
Debt	45.3	726.8
Adjusted Gearing	0.03	0.17
Adjusted Leverage	1.13	0.86

700m long-term loan to finance BIPLS acquisition at a rate of KIBOR+2% repayable in two years including one year of grace period. Maintaining capitalization indicators within manageable levels will be important for ratings.

Corporate governance structure

Senior management team has largely remained stable with one new addition in the retail team to further enhance the retail investor base of the company. Board of Directors comprises professionals having experience in the financial services sector. The company is also investing in development of its IT systems through partnership with a leading tech company whereby they plan to develop an in-house software to initiate online training and to increase financial inclusion.

Financial Summary (PKR in millions)			
<u>BALANCE SHEET</u>	30-Jun-19	30-Jun-20	30-Jun-21
Trade Debts	97.0	66.2	65.5
Long Term Investments	-	7.5	2,078.6
Short Term Investments	555.4	697.5	3,179.0
Cash and Bank balances	31.2	42.0	618.2
Total Assets	2,045.7	2,972.1	9,588.9
Trade & Other Payables	872.5	1,530.2	3,047.6
Liabilities Against asset subject to finance lease	15.9	45.3	26.8
Short Term running finance	-	-	-
Total Liabilities	888.5	1,575.5	3,775.5
Paid-up Capital	1,767.7	1,767.7	1,767.7
Adjusted Equity	1,146.4	1,390.6	4,399.6
<u>INCOME STATEMENT</u>	30-Jun-19	30-Jun-20	30-Jun-21
Total Revenue	162.0	805.8	4,654.5
Administrative Expenses	341.9	423.7	818.3
Finance Costs	2.5	5.8	5.6
Profit Before Tax	(182.4)	376.3	3,830.6
Profit After Tax	(226.5)	248.8	3,192.3
<u>RATIO ANALYSIS</u>	30-Jun-19	30-Jun-20	30-Jun-21
Liquid Assets to Total Liabilities (%)	157.30%	138.29%	186.98%
Liquid Assets to Total Assets (%)	68.32%	73.31%	73.62%
Adjusted Debt Leverage (x)	0.78	1.13	0.86
Adjusted Gearing (x)	0.01	0.03	0.17
Efficiency (%)	114.93%	81.80%	50.70%
ROAA (%)	-9.91%	9.92%	50.83%
ROAE (%)	-17.98%	19.62%	110.26%

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	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	11/22/2021	A+	A-1	Rating Watch-Positive	Maintained
	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	
	Naveed Vakil	COO		September 28, 2021	
	Khurram Shahid	Head Investment Banking			