

RATING REPORT

AKD Securities Limited

REPORT DATE:

December 07, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long -term	Short -term	Long -term	Short -term
Entity	AA-	A-1	A+	A-1
Rating Outlook	Stable		Rating Watch- Positive	
Rating Date	December 07, 2022		November 22, 2021	
Rating Action	Upgrade		Maintained	

COMPANY INFORMATION

Incorporated on 16th May 2007*

External auditors: RSM Avais Hyder Liaquat Nauman Chartered Accountants

Public Limited Company-Listed

Chairperson of the Board: Ms. Hina Dhedhi Junaid

Key Shareholders (with stake 5% or more):

Chief Executive Officer: Mr. Muhammad Farid Alam

- AKD Group Holdings (Pvt.) Limited: 95.90%

*

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 RATING RATIONALE

AKD Securities Limited (formerly BIPL Securities Limited) was incorporated in 2000 as a public limited company under the Companies Ordinance 1984 and started its broking operations in January 2003. On 03 June 2022, the entire undertaking of AKD Securities Limited (AKDSL), a public unlisted company in Pakistan was merged with and into the BIPL Securities Limited. Upon sanction of the Merger Scheme, the name of the Company has been changed to AKD Securities Limited. The Company, through direct and beneficial ownership is owned by 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 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).

On 03 June 2022, under a Scheme of Arrangement approved by the High Court of Sindh, effective July 1, 2022, the entire undertaking of AKD Securities Limited (AKDSL), a public unlisted company in Pakistan with AKDSL was merged with and into the BIPL Securities Limited, a listed brokerage Company, and the entire business of AKDSL including its properties, assets, liabilities and rights and obligations vested into the Company. That upon sanction of the Merger Scheme, the name of the Company has been changed to AKD Securities Limited on 22 July 2022.

Listed on the Stock Exchange, AKD Securities Limited (formerly BIPL Securities Limited) is licensed to operate as securities broker, consultant to the issue, and underwriter from the Securities Exchange Commission of Pakistan and holds a Trading Right Entitlement Certificate (TREC) of Pakistan Stock Exchange Limited and Membership card of Pakistan Mercantile Exchange Limited. The principal activities of the Company are brokerage of shares and/or commodities/ money market / forex trading, financial research, book building, underwriting, investments in securities/commodities, corporate advisory and consultancy services

BIPL Securities Limited (formerly KASB Securities) was incorporated in 2000 as a public limited company under the Companies Ordinance 1984 and started its broking operations in January 2003. BIPL Securities Limited (BIPLS) has an operational track record of more than 25 years engaged in the provision of equity brokerage services with presence in commodity, fixed income and forex segment.

The authorized capital of the Company, after the sanction of the Merger Scheme, has been increased from PKR 2Billion to PKR 7Billion, divided into 700million shares of PKR 10/- (Pak Rupees Ten) each, by merger of the existing authorized share capital of the Company and AKDSL and by virtue of an additional increase of Rs. 2,500 million to accommodate the swap ratio of 2.59 shares of the Company for every one share of AKDSL held by each of the shareholders of AKDSL.

Key Rating Drivers:

Post two-years of improving trends, PSX volumes fell in FY22, constraining brokerage industry profitability, particularly for less revenue-diversified firms.

Following PSX's historic performance in terms of volumes in FY21, overall trading volumes dropped ~44% in FY22 (average daily volume dropped to 291m from 527mn). The drop in trading volumes was primarily due to the country's weak macroeconomic environment, which included high inflation and interest rates, as well as rupee depreciation and political turmoil. As a result, brokerage revenues fell in tandem with trading volumes across the industry. This has harmed the profitability of brokerage firms, with some reporting net losses.

Table: Industry Trading Metrics – Ready

PSX Data (Ready + Future)	FY18	FY19	FY20	FY21	FY22
Volume (In Billions)	43	37	49	131	73
Value (In PKR' Billions)	2,027	1,549	1,789	4,781	2,406

Uncertainty on the economic and political fronts is expected to keep the sector's trading volumes and profitability under pressure in the ongoing year. In addition, amidst high interest rate environment with corporate profits expected to remain subdued amidst high inflation and imposition of super tax, we expect capital market activity to remain dampened.

Recent merger to improve market position of the Company

The merger with BIPL Securities was in line with management's strategy to expand the retail footprint and fast track its branch expansion strategy. Previously AKD had about 33,181 customers with a market share of ~9.31%, while BIPL had a retail customer base of 15,675 and recorded a market share of ~5.06%. As represented by the management, there have been nominal duplications in the portfolios and post-merger AKDSL has a large and diversified customer base of 48,856 clients. With a prospective market share of ~18% as per management (13.66% currently), AKDSL will be positioned as the largest full service brokerage and non-bank advisory institution. A large retail client base is expected to allow the Company to execute regular orders, and seek placement opportunities more efficiently with minimal cost.

Geographic outreach has also expanded with the merger with presence now in 10 cities. Management is currently pursuing both structures in the distribution network for now to optimize operational strengths, AKD following a centralized trading approach while BIPL follows branch level trading structure.

Number of Clients	BIPL	AKDSL	Post Merger
Domestic Institutions	408	634	1,042
Foreign Institutions	6	43	49
Domestic Retail	15,261	31,346	46,607
High Net Worth Individuals	-	1,158	1,158
Total	15,675	33,181	48,856

Product line enhancement

With the merger, the Company has acquired the money market license, being the second only brokerage house in the market to offer money market services. In a high interest rate environment, this may provide leverage to the Company to generate added revenues. In addition, the larger client base provides scalability and an impetus to invest in product development. The Company is planning to invest in updating their IT platform and enhancements in online application for which mandates have

been assigned. Projected plans may improve revenue stream diversity, which remains concentrated on brokerage income. However, amidst new product development, maintaining operational efficiencies will remain a key rating driver.

Propriety book exposures exposes the Company to elevated market risk

Short-term investments account for 48% of equity of AKDSL. Market risk on this portfolio is considered to be high given bulk of the short-term investment portfolio is invested in higher risk small cap stocks. Liquidity is also considered adequate after excluding strategic investments.

Realized and unrealized losses arising out of propriety book exposure continued to constrain profitability in FY22, leading to bottom line losses. While Q1'23 reflects an uptick in profitability, it is primarily contributed by unrealized profits on the investment portfolio which for credit rating purposes are excluded from recurring revenues. With brokerage revenues dominating the revenue pool, amidst slow market activity, revenue generation will remain under pressure.

Improvement in Corporate Governance

Being a listed entity, compliance with Corporate Governance framework has increased. Disclosure levels have been enhanced. Change of auditor and enhancements to internal processes and compliance has been noted.

Financial Summary		(PKR in millions)
<u>BALANCE SHEET</u>		
	FY22	1QFY23
PPE & Lease Assets	327.7	316.8
Intangible Assets	3,155.2	3,154.8
Trade Debts	327.1	442.4
Long Term Investments	201.9	222.5
Short Term Investments	3,533.9	4,332.6
Cash and Bank balances	1,140.4	250.9
Other Assets	2,477.0	2,611.1
Total Assets	11,163.2	11,331.1
Trade & Other Payables	2,633.7	2,395.5
LT Borrowings (Including Fin. Lease)	203.0	202.0
Short Term running finance	865.0	525.0
Other Liabilities	154.5	188.2
Total Liabilities	3,856.1	3,310.7
Paid-up Capital	1,000.0	5,578.3
Adjusted Equity	7,323.5	8,016.3
<u>INCOME STATEMENT</u>		
	FY22	1QFY23
Total Revenue	1,075.5	1,186.5
Administrative Expenses	999.0	287.7
Finance Costs	105.2	43.3
Profit Before Tax	(81.8)	856.5
Profit After Tax	(323.6)	692.9
<u>RATIO ANALYSIS</u>		
	FY22	1QFY23
Liquid Assets to Total Liabilities (%)	121.22%	138.45%
Liquid Assets to Total Assets (%)	41.87%	40.45%
Adjusted Debt Leverage (x)	52.65%	41.30%
Adjusted Gearing (x)	14.58%	9.07%
Efficiency (%)	46.67%	101.54%
ROAA (%)	-4.70%	6.16%
ROAE (%)	-7.95%	9.03%
<i>*PM is post-merger</i>		

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					
	12/07/2022	AA-	A-1	Stable	Upgrade	
	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		25 th Oct, 2022		
	Tanvir Hussain Khan	CFO				