

BROKER FIDUCIARY RATING REPORT

AKD Securities Limited

REPORT DATE:

27 December, 2021

RATING ANALYSTS:

Sara Ahmed

sara.ahmed@vis.com.pk

Batool Zaidi

batool.zaidi@vis.com.pk

Muzammil Noor Sultan

muzammil.noor@vis.com.pk

RATING DETAILS

Broker Fiduciary Rating
BFR2++
Strong Fiduciary Standards
Rating Rationale

The rating signifies strong client ownership and governance, management and client services and business and financial sustainability while internal controls and regulatory compliance are sound.

Rating Date

27 December, 2021

COMPANY INFORMATION

Incorporated in 2007	External auditors: Riaz Ahmad and Co. Chartered Accountants
Public Limited Company	Chief Executive Officer: Mr. Muhammad Farid Alam
Key Shareholders (with stake 5% or more):	Chairman of the Board: Ms. Hina Junaid
<i>AKD Group Holdings (Pvt.) Limited ~ 100%</i>	

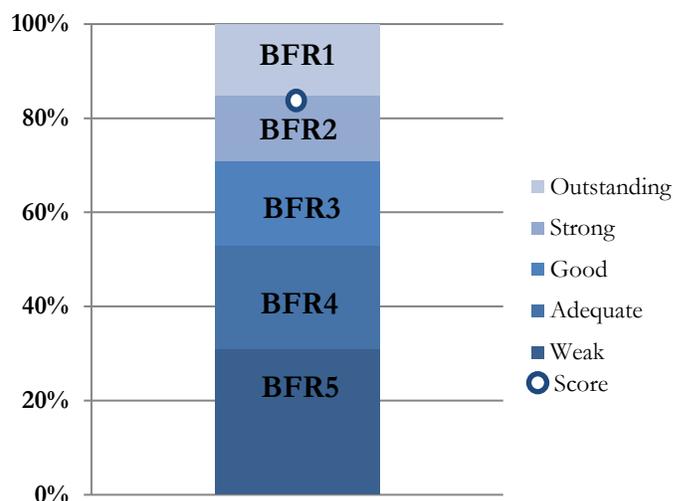
APPLICABLE METHODOLOGY

Applicable Rating Criteria: Broker Fiduciary Ratings 2021

<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

AKD Securities Limited
CORPORATE PROFILE

Operating in the brokerage business for over 13 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. The company, through direct and beneficial ownership, is a wholly-owned subsidiary of AKD Group Holdings (Pvt.) Limited (AKD-GHPL). 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.

OVERALL GRADING


AKDSL is registered with Securities & Exchange Commission of Pakistan (SECP) and holds a Trading and Self-Clearing (TSC) license and Trading Rights Entitlement Certificate (TREC) granted by Pakistan Stock Exchange Limited (PSX). Moreover, the company also holds underwriting and corporate advisory licenses. External auditors of the company are Riaz Ahmad and Co. Chartered Accountants. External auditors from Category 'A' of State Bank of Pakistan's list of auditors.

Business and Financial Sustainability Indicators

	FY21	FY20	FY19
Size of Net Worth (Rs. In Millions)	4399	1390	1146
Gearing x (Total interest bearing debt/ Total equity)	0.17x	0.03x	0.01x
Leverage x (Total liabilities/ Total equity)	0.86x	1.13x	0.78x
Liquid Assets/ Total Liabilities (x)	1.86x	1.37x	1.54x
Short term Investments/ Total Equity (%)	72%	50%	48%
Net Capital Balance	2,999.6	534.4	440.9

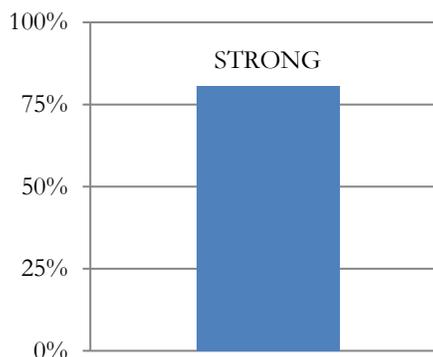
AKD Securities Limited

Rating Indicators

Ownership & Governance

- The company is among the leading players in the brokerage industry. Board of the company consists of 4 members including an independent member.
- Governance structure is supported through functioning of Board committees including Audit, Investment and HR.
- However, to further strengthen governance framework, increasing the board size may be considered to avoid repetition of members in the board committees.
- Disclosure levels may also be enhanced through inclusion of Statement of compliance with code as well as CEO statement in annual financial statements.

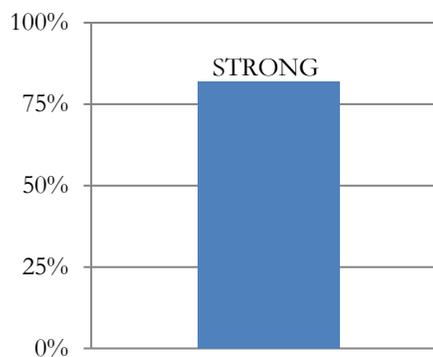
Ownership & Governance



Business & Financial Sustainability

- Profitability of the company recorded sizeable uptick in FY21, owing to increased operating revenue and significant capital gains on sale of investments. The increase in operating revenues remained in line with increased market volumes in FY21.
- Higher operating revenues coupled with contained costs led to improvement in cost to income ratio.
- Liquidity profile is strong with liquid assets providing 186% coverage to total liabilities at the end of FY21 (FY20: 137%)
- However, market risk remains elevated on account of a sizable propriety book of Rs. 3.1b at the end of FY21. Short term investments relative to equity were at 72% at end FY21.
- Gearing and leverage are low and manageable. Strong equity base of Rs. 4.4b provides support to the financial profile of the company.
- Overall business and financial sustainability is considered strong. Sustainability of operating revenues coupled with maintenance of operational efficiency and gearing levels will be important, going forward.

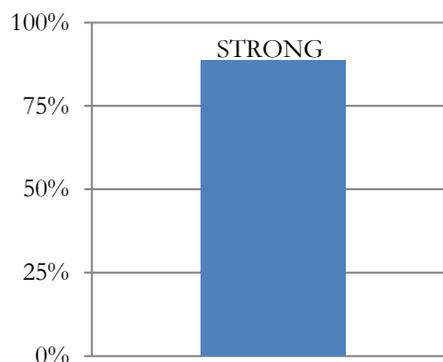
Business & Financial Sustainability



Management & Client Services

- Client services and customer facilitation tools are well established. A client centric approach focuses on enhancing customer experience and strengthening client relationship.
- Mobile and web based trading activities are available for improved customer assistance. Online availability of customer reports is also ensured in order to promptly update customers with their trading activity log.
- An independent risk management function may assist in credit worthiness evaluation procedures.
- Proposed merger with BIPLS is expected to further enhance outreach and client base.

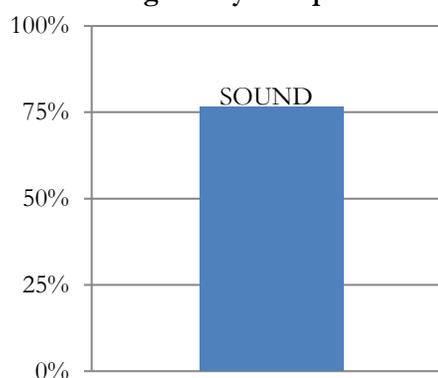
Management & Client Services



Internal Controls & Regulatory Compliance

- Increasing the scope and review of internal policies may strengthen internal control framework.
- Audit procedures and scope may be further strengthened.
- Segregation of internal audit and compliance is noted positively, however addition of independent risk management function may be considered.
- Some observations with respect to KYC procedures are pending appeal with SECP.
- Overall, internal control and regulatory framework is considered sound.

Internal Controls & Regulatory Compliance



Broker Fiduciary Rating Explained

In Securities Broker Fiduciary Rating (SBF), the strength of fiduciary role of the securities brokers is captured through the relative financial strength of the securities broker firm and its sponsors along with depth of internal control and governance framework, which are key rating ingredients. Responsiveness of the risk and internal control structure, quality of HR and soundness of the business infrastructure determine the strength of management and level of service quality of a stock broker. VIS Credit Rating Co. Ltd. (VIS) has developed a rating system that evaluates brokerage firms on the basis of such practices and the systems instituted to safeguard investor interests are at the forefront.

FIDUCIARY RATING SCALE & DEFINITIONS

Appendix I

RATING SCALE & DEFINITIONS: SECURITIES BROKER FIDUCIARY RATING**BFR1**

Outstanding fiduciary standards

BFR4++, BFR4+, BFR4

Adequate fiduciary standards

BFR2++, BFR2+, BFR2

Strong fiduciary standards

BFR5++, BFR5+, BFR5

Weak fiduciary standards

BFR3++, BFR3+, BFR3

Good fiduciary standards

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

AKD Securities Limited

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	AKD Securities Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Fiduciary Rating (BFR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	RATING TYPE: BFR			
	27/12/2021	BFR2++	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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