

RATING REPORT

Adam Securities Limited

REPORT DATE:

February 28, 2020

RATING ANALYSTS:

Muniba Abdullah, CFA

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB	A-3
Rating Outlook	Stable		Stable	
Rating Date	February 18, 2020		July 26, 2019	

COMPANY INFORMATION

Incorporated on June 9, 2001
External auditors: M/s Baker Tilly Mehmood Idrees,
Chartered Accountants

Public Unlisted Company
Chairperson & CEO: Mr. Noman Abdul Majeed Adam

Key Shareholders (with stake 5% or more):

Mr. Noman Abdul Majeed Adam – 98.86%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017)

<http://vis.com.pk/kc-meth.aspx>

Adam Securities Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Adam Securities Limited (ASL) is a public unlisted company which was incorporated in June 2001 under the Companies Ordinance 1984. ASL is a TREC holder of Pakistan Stock Exchange.

Profile of Chairman & CEO

Mr. Noman Abdul Majeed is the CEO and Director of the company with over 10 years of experience in Stock Market, International Markets and Commodities Market. He is the head of Security Brokerage Division of the company as well. Mr. Noman holds a graduate degree from University of Karachi.

Adam Securities Limited (ASL) is engaged in provision of equity brokerage services to domestic retail and institutional clients. Shareholding of the company is primarily vested within the family represented by one individual, CEO. The company operates through its head office in Karachi.

ASL continues to maintain a significant market share of 11% vis-à-vis other industry players despite decline in market volumes during the period under review. However, the same has not translated into high brokerage commission earnings given proprietary trading being higher than share turnover for clients; brokerage industry continues to be affected by economic cycles. Nonetheless, management expects the top line to improve on the back of standardized commission rates across the industry as disclosed by the regulator. Going forward, market volumes, over the short-term, are expected to remain under pressure given rising interest rates and risk of rupee depreciation. Given the operating environment, players with efficient and variable cost structures focusing on high margin business and diversification in revenue streams are expected to fare better vis-à-vis peers. In order to reduce its reliance on brokerage volumes, ASL initiated corporate finance advisory and commodity trading. These lines of business are expected to help diversify revenues.

Despite a lower share turnover, the company reported a higher bottom line on account of higher capital gains on its proprietary book coupled with a lower taxation cost. As a result, capitalization indicators have strengthened on a timeline basis and compare favorably to peers. Liquidity and leverage indicators remain within manageable limits. Ratings also incorporate improvement in the corporate governance framework with the appointment of an independent director.

During 2019, management concerted its efforts towards improving its corporate governance framework including induction of a female director which translated into Board composition increasing from 3 to 4 members during 2019. An independent director, Mr. Muhammad Umair is also present as Chairman to the Board. A risk management committee and audit committee have been constituted at the Board level.

FINANCIAL SUMMARY			
	(amounts in PKR millions)		
BALANCE SHEET	30-Jun-18	30-Jun-19	31-Dec-19
Trade Debts	17.3	39.6	7.8
LT Investments	29.8	22.5	8.4
ST Investments (Prop book)	121.0	93.0	227.0
Cash and Bank balances	37.0	127.3	132.3
Total Assets	787.3	813.3	766.3
Trade and Other Payables	77.3	86.9	93.5
Short Term Financing	-	55.0	-
Paid Up Capital	250.0	265.0	265.0
Net Worth	557.9	562.5	607.2
INCOME STATEMENT	30-Jun-18	30-Jun-19	31-Dec-19
Total Revenue	111.4	92.4	69.3
Brokerage Income	75.7	39.1	15.6
Corporate Advisory Income	7.6	1.3	0.0
Administrative Expenses	(86.9)	(75.3)	(38.8)
Finance Costs	(3.4)	(2.3)	(3.1)
Profit Before Tax	70.6	52.0	51.7
Profit After Tax	17.6	43.9	44.8
RATIO ANALYSIS	30-Jun-18	30-Jun-19	31-Dec-19
Market Share (Share Turnover) (%)	12.6	9.1	11.2
Commission Income / Turnover (Paisa/Share)	1.39	1.57	2.93
Liquid Assets to Total Liabilities (%)	183.5	137.3	298.3
Liquid Assets to Total Assets (%)	49.6	40.9	59.8
Debt Leverage (x)	0.38	0.43	0.25
Gearing (x)	-	0.10	-
Efficiency (%)	91.0	100.1	101.8
ROAA (%)	4.	5.5	11.3
ROAE (%)	3.2	9.3	17.3

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

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

'SD' Rating: An 'SD' rating is assigned when JCR-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	Adam 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
	<u>RATING TYPE: ENTITY</u>				
	18-February-2020	BBB+	A-2	Stable	Upgrade
	26-July-2019	BBB	A-3	Stable	Upgrade
	30-March-2018	BBB-	A-3	Stable	Upgrade
	31-October-2017	BB+	A-3	Stable	Upgrade
	03-April-2017	BB	A-3	Stable	Reaffirmed
30-Dec-2015	BB	A-3	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	Meeting Date	
	1	Mr. Noman Abdul Majeed Adam	Chief Executive Officer	February 13, 2020	
	2	Mr. Muhammad Rizwan Haroon	Chief Financial Officer	February 13, 2020	