

## RATING REPORT

### Adam Securities Limited

**REPORT DATE:**

17th September, 2020

**RATING ANALYSTS:**

Muhammad Ibad

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	BBB+	A-2
Rating Outlook	Stable		Stable	
Rating Date	September 17, 2020		February 18, 2020	

#### COMPANY INFORMATION

Incorporated on June 08, 2001

External auditors: M/s Baker Tilly Mehmood Idrees,  
Chartered Accountants

Public Unlisted Company

Chairperson: Mr. Muhammad Umair

Key Shareholders (with stake 5% or more):

CEO: Mr. Noman Abdul Majeed Adam

Mr. Noman Abdul Majeed Adam – 98.86%

#### APPLICABLE METHODOLOGY(IES)

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

<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 Securities 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.

**Earnings profile supported by investment income**

ASL continues to maintain a significant market share of 13% vis-à-vis other industry players despite decline in market volumes during 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. 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. Efficiency ratios slightly increased due to lower recurring income. Brokerage income has declined on timeline basis due to lower trading volumes as well as lower commission per share shared from retail clients. Despite a lower share turnover, the company reported a higher bottom line on account of higher investment income.

**Ratings can benefit from diversification of revenues**

In order to reduce its reliance on brokerage volumes, ASL maintains corporate finance advisory and commodity trading. During FY20, company received Rs. 1.2 million commission from PMEX related clients and it is expected that this will gradually increase in next financial years. The Company is applying for underwriting license in order to further diversify income.

**Liquidity profile is considered adequate while credit risk and market risk remains manageable**

Liquid assets are more than sufficient to account for current liabilities of the company. On the other hand credit risk for ASL is deemed to be on the lower side as major quantum of trade receivables are due within 3 months and receivables against margin financing have declined on the back of reduced market activity. Moreover, market risk emanating from the investment portfolio is considered limited as most of the proprietary book is invested in futures market.

**Capitalization indicators are supported by low leveraged capital structure and high profit retention**

Capitalization indicators have strengthened on a timeline basis and compare favorably to peers. Short term investments increased to Rs. 311.9m (1HFY20: Rs. 227m). Liquidity and leverage indicators remain within manageable limits. Ratings also incorporate improvement in the corporate governance framework with the appointment of an independent director.

**Corporate governance framework is adequate**

Board of Directors comprises 4 members including a female director. 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.

<b>FINANCIAL SUMMARY</b>				(Rs. in millions)
<b>BALANCE SHEET</b>				
	<b>30-Jun-18</b>	<b>30-Jun-19</b>	<b>30-Jun-20</b>	
Trade Debts	17.3	39.6	7.2	
LT Investments	29.8	22.5	8.4	
ST Investments (Prop book)	121	93.0	311.9	
Cash and Bank balances	37	127.3	415.8	
<b>Total Assets</b>	<b>787.3</b>	<b>822.3</b>	<b>1,044.4</b>	
Short Term Financing	-	-	-	
Paid Up Capital	250.0	265.0	265.0	
Net Worth	557.9	505.5	589.5	
<b>INCOME STATEMENT</b>				
	<b>30-Jun-18</b>	<b>30-Jun-19</b>	<b>30-Jun-20</b>	
Brokerage Income	75.7	39.1	33.0	
Capital gain on sale of securities	31.4	59.7	131.2	
Gain on remeasurement	2.8	-7.6	-10.8	
Corporate Advisory Income	7.6	1.3	-	
<b>Total Revenue</b>	<b>111.4</b>	<b>92.4</b>	<b>155.5</b>	
Administrative Expenses	-86.9	-74.9	-80.7	
Finance Costs	-3.4	-2.3	-6.3	
<b>Profit Before Tax</b>	<b>70.6</b>	<b>52.3</b>	<b>108.2</b>	
<b>Profit After Tax</b>	<b>17.6</b>	<b>53.2</b>	<b>96.5</b>	
<b>RATIO ANALYSIS</b>				
	<b>30-Jun-18</b>	<b>30-Jun-19</b>	<b>30-Jun-20</b>	
Market Share (Share Turnover) (%)	12.6	9.1	12.7	
Commission Income / Turnover (Paisa/Share)	1.39	0.78	0.5	
Liquid Assets to Total Liabilities (%)	183.5	137.3	160.3	
Liquid Assets to Total Assets (%)	49.6	40.9	69.7	
Debt Leverage (x)	0.38	0.43	0.77	
Gearing (x)	-	0.1	-	
Efficiency (%)	91	100.1	116.1	
ROAA (%)	4	5.5	10.3	
ROAE (%)	3.2	9.3	17.6	

## ISSUE/ISSUER RATING SCALE &amp; 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:** 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](http://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](http://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](http://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			
<b>Name of Rated Entity</b>	Adam Securities Limited				
<b>Sector</b>	Brokerage				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	17-September-2020	A-	A-2	Stable	Upgrade
	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
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>		<b>Designation</b>	<b>Meeting Date</b>	
	1	Mr. Noman Abdul Majeed Adam	Chief Executive Officer	September 10, 2020	
	2	Mr. Muhammad Rizwan Haroon	Chief Financial Officer	September 10, 2020	