

RATING REPORT

Adam Securities Limited

REPORT DATE:

30 September, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	September 30, 2022		September 21, 2021	

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):	Director: Mr. Noman Abdul Majeed Adam
Mr. Noman Abdul Majeed Adam – 98.86%	CEO: Mr. Muhammad Aftah Haji Ghani

APPLICABLE METHODOLOGY(IES)

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

<https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf>

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 Director & Sponsor

Mr. Noman Abdul Majeed is the Director of the company with over 14 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 also holds the experience of Media Industry. He is the Sponsor of Venus HD (TV Channel). Mr. Noman holds a graduate degree from University of Karachi.

Profile of CEO

Mr. Muhammad Aftab Haji Ghani is post graduate in Islamic Banking and Finance from University of Karachi and has an experience of above 28 years in banking

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

Sector Update

- During FY22, PSX volumes plunged by around 50%. Subsequently, average daily market volumes witnessed a dip as well. Average daily market volumes in FY21 stood at 527 million, while average daily volumes in FY22 were reported to be around 291 million.
- Resultantly, in tandem with the trading volumes, brokerage income declined across the industry.
- The decline in market volumes is largely attributable to rising inflation and interest rates. Consequently, investor’s confidence has been negatively impacted.
- Previously, market volumes witnessed a steep rise in FY21. The premise behind such an increase were the steps taken by PSX and SECP to enhance investor’s confidence. New regulations in the industry, launching of ETFs and Murabaha Share Financing and introduction of Growth Enterprise Board (GEM) for listing of small companies sored positive sentiments among the investors.
- As a result of high interest rates, investors are more inclined towards secure investments like in T-Bills and PIBs, securing high returns on these investments as well as mitigating market risk. Apart from this, business borrowing has drastically fallen.
- The Pakistan stock exchange has taken steps in order to restore investor’s confidence and enhance their experience. PSX has launched its first dividend based fundamental index, which will help investors gauge performance of their investment portfolio. Moreover, PSX has launched a ‘Property’ segment for indexing the companies falling under this sector.
- Volumes of July to September 2022 are at 9,469m, lower than its corresponding period in 2021, denoting investors’ confidence being low.
- With the macroeconomic indicators on the dismal, coupled with the floods that have inflicted unprecedented damage across the country as well as imposition of super tax, investors’ sentiments are expected to remain subdued. Volumes are expected to remain under pressure, going forward.

Table 1: Industry Trading Metrics (Volume & Value) – Regular

	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

sector. Previously, he has served as Manager Islamic Window and AVP in United Bank Limited from February 2011 to October 2020.

Rating Drivers

Following an exceptional performance in terms of profitability in FY21, profitability in FY22 was impacted adversely

- In spite of the decrease in the industry trading volumes, ASL was able to increase its market share, which surged to 14.74% from 11.62% in FY21. Nevertheless, business volumes have been down due to significant drop in market activity which has impacted the profitability profile of the Company. The Company actively engages in ready future transactions on its proprietary book. Excluding those volumes, ASL market share was recorded at 8.2% up from 6.91% in FY21.
- Capital gain on investments accounted for 57% (FY21: 67%) of the total revenues in FY22 (Rs. 274.6m), of which gain on sale of fixed income securities amounted to Rs. 21m. Brokerage commission however contributed lower at 22% (FY21: 26%) to Company’s revenues, Capital gains in the Company depict a recurring trend, largely emanating from ready future trades, undertaken by the Company.
- However, Brokerage commission remains the major component of their core revenue stream, contributing about 80% on average to operating revenues.
- Brokerage commission is diversified among international retail, domestic retail and domestic institutional. Domestic retail is the major contributor to the brokerage commission, accounting for 74% of the brokerage income. Domestic institution is contributing 25% to the brokerage commission while international retail accounting for only 1%. Albeit improving, client concentration remains on the higher side with top 6 accounting for 55% of commission income.
- Other revenue streams including underwriting and advisory income also reflect improvement although their contribution remains low. Going forward, augmentation of revenues through diversified revenue base will remain key.

Diversification in Total Revenue	FY20	FY21	FY22	FY20	FY21	FY22
	PKR Mn.			%		
Commission Income	31.8	146.0	59.7	16%	26%	22%
Dividend Income	2.2	2.6	3.9	1%	0.5%	1%
Gain on sale of T-Bills and Mutual Funds	-	-	21.4	0%	0%	8%
Commodity Income	1.2	-	0.0	1%	0%	0%
Capital Gains	131.2	373.0	155.8	67%	67%	57%
Loss on revaluation of investments	(10.9)	(14.9)	(6.7)	-6%	-3%	-2%
Other Income (Inc. Underwriting and Advisory)	39.7	48.6	40.5	20%	9%	15%
Total	195.2	555.3	274.6	100%	100%	100%

- Excluding capital gains booked on ready-future trading, the company’s efficiency ratio has crossed 150% in FY22 (FY22: 151%, FY21: 124%). However, on incorporating capital gains into recurring income, the company’s efficiency decreases drastically (FY22: 38%, FY21: 62%).

P&L Extract	FY19	FY20	FY21	FY22
Operating Revenue	40.3	35.2	148.6	85.0
Operating Expense	77.6	89.0	208.2	163.0
-Admin Expense	75.3	82.8	192.1	144.7
-Finance Cost	2.3	6.3	16.2	18.3
Net realized & unrealized gain on investments	52.1	120.3	358.1	149.1
Profit After Tax	43.9	98.5	336.8	108.6
ROAA	5.5%	10.6%	28.7%	6.8%
ROAE	7.8%	17.1%	45.1%	11.2%
Efficiency	113%	136%	124%	151%

Financial risk profile remains manageable

Liquidity Risk

- Liquid assets to total liabilities ratio has increased (FY22: 238.4%, FY21: 205.1%), owing to an increase in secure investments and cash and bank balance.
- While current ratio depicts a downward trend in FY22 (FY22: 2.16, FY21: 3.35), it remains within a reasonable range Overall, liquidity profile of the company is considered sound.

Credit Risk

- Trade receivables are reported to be at Rs.19.85m, accounting for around 1% of the total current assets.
- 70% of the trade receivables fall under the band of 10 days, depicting a sound credit risk profile of the company

Market Risk

- As at Jun'22, short term investments stood at Rs. 1,493.8m, of which 38.4% of the investment is in listed equity securities. Remaining investment are allocated to T-bills and mutual funds, which has low market risk exposure.
- Short-term investments to equity, excluding T-bills and mutual funds, stands at 55.54%.

Adequate capitalization structure with high leverage and gearing ratio

- Total equity of the Company grew to Rs. 1,036.5m as at Jun'22 from Rs. 913.2 at Jun'21 on account of profitability.
- Gearing and Leverage ratios depict an increase to 0.75x and 0.82x as at Jun'22. The increase is attributable to higher short term borrowings.

Corporate governance framework is sound

At present, the board is represented by 5 members, inclusive of a female director and an independent director. No change in the board of directors has taken place. Two committees, namely audit committee and human resource and remuneration committee is present at board level in order to ensure effective oversight. However, repetition of members in the committee is observed and may be considered. Overall, the governance structure is considered sound.

FINANCIAL SUMMARY (amounts in PKR millions)		Appendix I		
<u>BALANCE SHEET</u>	FY19	FY20	FY21	FY22
Trade Debts	40	7	30	21
Long Term Investments	22	8	8	12
Short term Investments	93	312	786	1,494
Cash and Bank balances	127	416	110	250
Total Assets	813	1,047	1,304	1,887
Trade and Other Payables	87	447	174	57
Short Term Loans	55	-	179	778
Paid Up Capital	265	265	250	265
Net Worth (excluding revaluation surplus)	562	586	908	1,033
<u>INCOME STATEMENT</u>	FY19	FY20	FY21	FY22
Total Revenue	92	156	507	234
Brokerage Income	39	32	146	60
Commodity Income	-	1	-	-
Advisory and consultancy fee	1	-	2	4
Dividend Income	1	2	3	4
Administrative Expenses	75	83	192	145
Finance Costs	2	6	16	18
Profit Before Tax	52	106	347	112
Profit After Tax	44	98	337	109
<u>RATIO ANALYSIS</u>	FY19	FY20	FY21	FY22
Liquid Assets to Total Liabilities	91.0%	159.8%	238.4%	205.1%
Liquid Assets to Total Assets	27.1%	69.5%	68.7%	92.4%
Leverage	0.43	0.78	0.41	0.82
Gearing	0.10	0.00	0.20	0.75
Current Ratio (x)	3.11	2.19	3.35	2.16
Efficiency (%)	112.9%	136.1%	124%	151%
ROAA (%)	5.5%	10.6%	28.7%	6.8%
ROAE (%)	7.8%	17.1%	45.1%	11.2%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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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

Adam Securities Limited

Sector	Brokerage																																																							
Type of Relationship	Solicited																																																							
Purpose of Rating	Entity Rating																																																							
Rating History	<table border="1"> <thead> <tr> <th>Rating Date</th> <th>Medium to Long Term</th> <th>Short Term</th> <th>Rating Outlook</th> <th>Rating Action</th> </tr> </thead> <tbody> <tr> <td colspan="5" style="text-align: center;">RATING TYPE: ENTITY</td> </tr> <tr> <td>30-September 2022</td> <td>A-</td> <td>A-2</td> <td>Stable</td> <td>Reaffirmed</td> </tr> <tr> <td>06-September 2021</td> <td>A-</td> <td>A-2</td> <td>Stable</td> <td>Reaffirmed</td> </tr> <tr> <td>17-September 2020</td> <td>A-</td> <td>A-2</td> <td>Stable</td> <td>Upgrade</td> </tr> <tr> <td>18-February-2020</td> <td>BBB+</td> <td>A-2</td> <td>Stable</td> <td>Upgrade</td> </tr> <tr> <td>26-July-2019</td> <td>BBB</td> <td>A-3</td> <td>Stable</td> <td>Upgrade</td> </tr> <tr> <td>30-March-2018</td> <td>BBB-</td> <td>A-3</td> <td>Stable</td> <td>Upgrade</td> </tr> <tr> <td>31-October-2017</td> <td>BB+</td> <td>A-3</td> <td>Stable</td> <td>Upgrade</td> </tr> <tr> <td>03-April-2017</td> <td>BB</td> <td>A-3</td> <td>Stable</td> <td>Reaffirmed</td> </tr> <tr> <td>30-Dec-2015</td> <td>BB</td> <td>A-3</td> <td>Stable</td> <td>Initial</td> </tr> </tbody> </table>	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	RATING TYPE: ENTITY					30-September 2022	A-	A-2	Stable	Reaffirmed	06-September 2021	A-	A-2	Stable	Reaffirmed	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
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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	<table border="1"> <thead> <tr> <th></th> <th>Name</th> <th>Designation</th> <th>Meeting Date</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Mr. Noman Abdul Majeed Adam</td> <td>Director</td> <td>September 05, 2022</td> </tr> <tr> <td>2</td> <td>Mr. Muhammad Rizwan Haroon</td> <td>Chief Financial Officer</td> <td>September 05, 2022</td> </tr> </tbody> </table>		Name	Designation	Meeting Date	1	Mr. Noman Abdul Majeed Adam	Director	September 05, 2022	2	Mr. Muhammad Rizwan Haroon	Chief Financial Officer	September 05, 2022																																											
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