

RATING REPORT

Adam Securities Limited

REPORT DATE:

 28th December, 2023

RATING ANALYSTS:

 Syeda Batool Zehra Zaidi
batool.vis.com.pk

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	Positive		Stable	
Rating Date	December 28, 2023		September 30, 2022	

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
Adam Family – 98.86%	CEO: Mr. Muhammad Aftab Haji Ghani

APPLICABLE METHODOLOGY(IES)

 VIS Entity Rating Criteria Methodology – Securities Firms Rating
<https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf>

APPLICABLE RATING SCALE(S)

 VIS Issue/Issuer Rating Scale:
<https://docs.vis.com.pk/docs/VISRatingScales.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

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

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

	FY18	FY19	FY20	FY21	FY22	FY23
Volume (In Billions)	43	37	49	131	73	47
Value (In PKR' Billions)	2,027	1,549	1,789	4,781	2,405	1,504

- During FY23, the brokerage sector faced significant challenges due to dwindling overall economic situation, a global decline in commodity prices, and political uncertainty. As a result, investor's confidence was greatly impacted.
- After witnessing a significant surge in trading volumes in FY21, volumes have depicted a downward trajectory wherein the trading volumes declined by around 44% in FY22, followed by a further decline of around 35% in FY23.
- Accordingly, in tandem with trading volumes, brokerage revenues declined across the industry. This has dented the profitability of brokerage companies, some of which have slipped into losses. Additionally, low volume of IPOs resulting in reduced underwriting activity during FY22 also contributed to loss of revenue, during the year only three IPOs occurred raising a total of Rs.1.3b which is considered low as compared to FY21 whereby eight IPOs were witnessed raising over Rs.20.0b.
- Recently PSX has launched a new technologically advanced trading platform, called Designated Time Schedule (DTS), replaced by the old trading platform (KATS/Karachi Automated Trading System) due to hardware and software mismatch. The new system is expected to improve security features to better safeguard investors' data and resolve complaints about data leakages and theft.
- In order to further facilitate brokerage houses and traders, PSX has planned to launch 15 new Trading Right Entitlement Certificates (TREC) licenses which is expected to bring ease for brokers fulfilling minimum financial requirements and to offer trade execution services to retail, institutional and foreign clients along with becoming underwriters for right shares issue and act as agents for share buybacks.

experience of above 28 years in banking sector. Previously, he has served as Manager Islamic Window and AVP in United Bank Limited from February 2011 to October 2020.

Rating Drivers

Earning profile of the Company remained under pressure owing to subdued market activity during the year. However, higher quantum of other recurring incomes continues to provide comfort to the Company’s operational risk.

- In tandem with industry trend, the Company’s earning profile faced challenges during the year due to contraction in market volumes and decline in revenues. Total revenue of the Company decreased to Rs. 222m (FY22 275m)
- Historically the Company’s revenue mix was dominated by capital gains. Quantum of core brokerage income continues to remain low constituting over 17% (FY22 20%) in total revenues, although capital gain on investments, which largely produced from ready future trades undertaken by the Company, constituted around 55% (FY22 57%).
- In order to reduce dependence on brokerage segment, the Company has diversified its revenue stream through engaging in the trade of mutual funds and T-bills. During FY23, revenues emanating from gain on sale of T-bills and mutual funds increased by two fold at Rs. 44m (FY22 Rs. 21m) contributing around 20% to the total revenue (FY22 8%).
- Uptick in contribution from gain on sale of T-bills and mutual fund segment has also provided comfort to the profitability of the Company, ASL’s PAT was recorded higher at Rs. 171.5m during the year. (FY22 Rs. 108.2m) Other revenue streams including underwriting and advisory income also reflect improvement although their contribution remained low.
- On the operational front, cost-to-income ratio depicts a declining trend albeit remaining high.
- Going forward, further improvement in the Company’s operational profile and augmentation of revenues will remain key.

Diversification in Total Revenue	FY21	FY22	FY23	FY21	FY22	FY23
	PKR Mn.			%		
Commission Income	146.0	59.7	38.2	26%	22%	17%
Dividend Income	2.6	3.9	1.3	0.5%	1%	1%
Gain on sale of T-Bills and Mutual Funds	-	21.4	43.6	0%	8%	20%
Commodity Income	-	0.0	0.0	0%	0%	0%
Capital Gains	373.0	155.8	122.7	67%	57%	55%
Loss on revaluation of investments	(14.9)	(6.7)	(9.5)	-3%	-2%	-4%
Other Income (Inc. Underwriting and Advisory)	48.6	40.5	25.5	9%	15%	11%
Total	555.3	274.6	221.8	100%	100%	100%

P&L Extract	FY19	FY20	FY21	FY22	FY23
Operating Revenue	40.3	35.2	148.6	85.0	83.1
Operating Expense	77.6	89.0	208.2	146.5	113.2
Net realized & unrealized gain on investments	52.1	120.3	358.1	149.1	113.2
Profit After Tax	43.9	98.5	336.8	108.6	171.6
ROAA	5.5%	10.6%	28.7%	6.8%	10.9%
ROAE	7.8%	17.1%	45.1%	11.2%	15.3%
Efficiency	113%	136%	124%	151%	112%

Assigned ratings take note of Company's sustained market positioning and client base:

- Owing to subdued market activity and decline in overall trading volumes, ASL's volumes in ready and future transactions also depicted a decline by 34%. Albeit market share remained intact at 15% during FY23.
- In terms of clientele, brokerage commission is diversified among international retail, domestic retail and domestic institutional. While domestic retail continues to remain the major contributor to the brokerage commission, accounting for 71% (FY22 74%) domestic institution slightly increased to 28% (FY22 25%). Contribution of international retail clients continues to remain low, during FY23, international retail clients contributed around 0.22% to the total mix (FY22 1%)

Financial risk profile remains manageableLiquidity Risk

- ASL's liquidity profile continues to remain sound for the current year, liquid assets to liabilities provided more than ample coverage to total liabilities. During FY23 over 93% of the total asset base of the Company comprises of liquid assets.
- Liquidity profile of the Company is also supported by improvement in current ratio of 22.42x (FY22 2.21x) owing to decline in the Company's short term borrowings during the year.

Credit Risk

- During the year, the Company's trade receivables decreased to Rs. 4.2m (Rs. 8.3m). Overall risk profile of the Company continues to remain sound as over 64% of receivables outstanding are recovered in 10 days.

Market Risk

- During the year, the Company's short term investment portfolio witnessed a decline. End-June'23, short term investments decreased to Rs. 1.14b (FY22 1.51b) out of which 71% were investments in T-bills while remaining were in margin financing.
- Albeit remaining on the higher side, quantum of short term investments in relation to equity also decreased to 95% depicting a decline since the preceding year (FY22 1457%). Market risk is considered to be manageable given higher concentration of T-bills in the investment portfolio during the year.

Sound capitalization structure with manageable leverage and gearing ratio

- During the year, the Company issued bonus shares worth Rs. 735m which increased the total size of net worth. Total equity of the Company stood at Rs. 1.2b end-FY23 (FY22 1.03b), whereas increase in total equity is also attributable to increase in profit during the year.
- Capitalization indicators have also witnessed improvement with gearing at 0.01x (FY22 0.75x) and leverage ratio standing at 0.04x (FY22 0.82x) owing to decrease in total short term borrowings and increase in equity. Maintenance of the same will remain important going forward.

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 replacements 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	FY23
Trade Debts	40	7	30	8	4
Long Term Investments	22	8	8	12	-
Short term Investments	93	312	786	1,514	1,150
Cash and Bank balances	127	416	110	250	17
Total Assets	813	1,047	1,304	1,887	1,261
Trade and Other Payables	87	447	174	57	18
Short Term Loans	55	-	179	778	11
Paid Up Capital	265	265	250	265	1,000
Net Worth (excluding revaluation surplus)	562	586	908	1,033	1,204
<u>INCOME STATEMENT</u>	FY19	FY20	FY21	FY22	FY23
Total Revenue	92	156	507	234	196
Brokerage Income	39	32	146	60	38
Commodity Income	-	1	-	-	-
Advisory and consultancy fee	1	-	2	4	0
Dividend Income	1	2	3	4	1
Administrative Expenses	75	83	192	147	113
Finance Costs	2	6	16	18	11
Profit Before Tax	52	106	347	115	177
Profit After Tax	44	98	337	108	172
<u>RATIO ANALYSIS</u>	FY19	FY20	FY21	FY22	FY23
Liquid Assets to Total Liabilities	91.0%	159.8%	238.4%	207.5%	2170.1%
Liquid Assets to Total Assets	27.1%	69.5%	68.7%	93.5%	92.5%
Leverage	0.43	0.78	0.41	0.82	0.04
Gearing	0.10	0.00	0.20	0.75	0.01
Current Ratio (x)	3.11	2.19	3.35	2.16	22.42
Efficiency (%)	112.9%	136.1%	123.6%	116.8%	104.1%
ROAA (%)	5.5%	10.6%	28.7%	6.8%	10.9%
ROAE (%)	7.8%	17.1%	45.1%	11.2%	15.3%

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>					
	28-December 2023	A-	A-2	Positive	Maintained
	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
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	Director		
	2	Mr. Muhammad Rizwan Haroon	Chief Financial Officer		