

RATING REPORT

Adam Securities Limited

REPORT DATE:

February 21, 2025

RATING ANALYSTS:

Shaheryar Khan Mangan

shaheryar@vis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Rating Category				
Entity	A-	A2	A-	A2
Rating Outlook/Watch	Positive		Positive	
Rating Date	February 21, 2025		December 28, 2023	
Rating Action	Reaffirmed		Maintained	

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 experience of above

Company Profile:

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 and serves as the Authorized Participant and Market Maker for UBL, Meezan, and Mahana Islamic Index Exchange Traded Funds (ETFs).

Sector Update

During FY24, PSX achieved the highest equity market performance globally, with its KSE-100 Index soaring to 78,444.96, a significant increase from 41,452.69 in FY23. The index recorded an impressive annual return of 89% in PKR terms and 94% in USD terms, led by appreciation of the Pakistani Rupee against the US Dollar. The surge was driven by improved economic indicators such as increased exports and remittances, a notable decline in inflation, and favorable political and financial developments, including the successful completion of the IMF Stand-by Agreement and a smoother transition of government.

The positive momentum extended into 6MFY25, with the KSE-100 Index reaching a record high of 117,000. This growth was underpinned by sustained economic recovery, monetary easing, a stable currency, and significant foreign direct investment (FDI) deals, such as Reko Diq. The initiation of a three-year Extended Fund Facility (EFF) program with the IMF enhanced investor confidence, while improvements in private sector credit, auto financing, petroleum sales, power generation, exports, and remittances further contributed to market activity.

Looking ahead, while the potential risks, including the unexpected devaluation of the PKR and political uncertainty, could pose challenges, improving macroeconomic indicators along with declining external financing needs are likely to sustain market performance

Table 1: Industry Trading Metrics – KSE All share

	FY19	FY20	FY21	FY22	FY23	FY24	6MFY25
Volume (In Billions)	37	49	131	73	47	112	87
Value (In PKR' Billions)	1,549	1,789	4,781	2,406	1,504	3,796	3,512

Rating Drivers

Diversified revenue base, with capital gains as the major contributor, sustained profitability on a timeline basis

Table 2: Diversification in Total Revenue (%)

Diversification in Total Revenue	FY21	FY22	FY23	FY24	6MFY25*
Commission Income	26%	22%	14%	29%	21%
Dividend Income	0%	1%	0%	1%	1%
Gain on sale of T-Bills and Mutual Funds	0%	10%	42%	35%	19%
Capital Gains	67%	57%	44%	46%	51%
Loss on revaluation of investments	-3%	-2%	-3%	-13%	8%
Other operating revenue	6%	7%	4%	2%	0%
Total	100%	100%	100%	100%	100%

*Unaudited accounts

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.

- After experiencing a gradual contraction in FY22 and FY23, the Company’s brokerage revenue experienced a rebound during FY24, exhibiting a robust growth of ~120% to reach PKR 83.9m (FY23: PKR 38.2m, FY22: 59.7m). This growth is attributable to higher industry volumes supported by favorable market dynamics and improved macroeconomic indicators. This positive momentum also extended into 6MFY25, with brokerage revenue coming in at PKR 84.8m.
- The Capital gains continue to dominate the Company’s revenue mix, which accounts for ~51% of the revenue base, while brokerage segment made up ~ 21% of the revenue, with ~19% emanating from income from gain on sale in T-Bills and Mutual Funds. The Company actively engages in ready future transactions, which largely contribute to its capital gains. In 6MFY25, capital gains were recorded at PKR 207.1m (FY24: PKR 134.6m, FY23: PKR122.7m).
- In terms of clientele, brokerage commission primarily stems from domestic retail clients, which accounted for ~92% of brokerage revenue while remaining were contributed by institutional clients.
- While trade volumes increased along with overall surge in industry volumes, the Company's market share, however, has come down to ~11% in 6MFY25 from 15% reported in FY23. Nevertheless, it remains sizeable, ranking seventh among the top ten brokers in terms of traded volumes, as reported by the Pakistan Stock Exchange.

Table 3: P&L Extract

P&L Extract	FY21	FY22	FY23	FY24	6MFY25*
Operating Revenue	179.6	110.0	168.4	193.2	165.5
Administrative Expenses	192.7	146.5	113.2	166.2	97.4
Capital gain on sale of securities	373.0	155.8	122.7	134.6	207.1
Net realized & unrealized gain on investments	(14.9)	(6.7)	(9.5)	(37.7)	32.3
Profit Before Tax	346.4	115.0	177.4	116.5	305.9
Profit After Tax	336.5	108.2	171.6	114.3	300.5
ROAA	28.6%	6.8%	10.9%	7.8%	32.0%
ROAE	45.0%	11.2%	15.3%	9.1%	40.9%

*Unaudited Accounts

- With the increase in overall revenue, operational efficiency of the Company depicted improvement, with cost-to-income ratio coming down to 53.1% in 6MFY25 (FY24: 77.0%, FY23: 60.7%).
- While higher operating expenses and finance costs weighed on the Company's profitability in FY24, it recovered strongly in 6MFY25, on the back of higher revenue led by capital gains, followed by higher brokerage income. The profit after tax was reported at PKR 300.5m in 6MFY25 (FY24: PKR 114.3m, FY23: 171.6m).
- Going forward, the management intends to continue focusing on ready future transactions for enhancement in its revenue base.
- Looking ahead, further diversification of the revenue base, along with sustained growth in revenue streams and profitability, will remain important for the rating.

Financial risk Profile of the Company is considered sound

Liquidity Risk:

- The Company’s liquid profile is considered sound, supported by its quantum of liquid assets, which stood at PKR 1,834.5m as at Dec’24 (Jun’24: PKR 1,494.9m, Jun’23: PKR 1,166.9m), covering 3.82x of its total liabilities. Short term investments account for ~92% of the Company’s liquid assets.
- Current ratio of the Company stood at 4.26x as at Dec’24 (Jun’24: 4.78x, Jun’23: 22.42x).

Credit Risk:

- The trade debts of the Company amounted to PKR 47.6m as at Dec’24 (Jun’24: PKR 21.9m, Jun’23: PKR 4.2m). These represent receivables due from clients. Out Of the total trade debts, ~92% of the receivables are due for 1-14 days while the remaining are due for more than 14 days. Overall, the credit profile of the Company is considered satisfactory.

Market risk:

- The Company's short-term investments stood at PKR 1,691.1m as of Dec'24 (Jun'24: PKR 1,324.6m, Jun'23: PKR 149.5m). Around 51% of these investments were allocated to T-Bills and Mutual Funds, while equity securities comprised ~44%. Investments in margin financing accounted for the remaining ~4%. Investments in mutual funds primarily consist of investments in T-Bills and Pakistan Investment Bonds, carrying no market risk.
- Given that investments in equity securities and margin financing collectively represent ~51% of the Company's equity base, market risk is considered manageable.

Low-leveraged Capital Structure; equity base supported by profitability over the years

- The Company's equity base has grown in tandem with its profitability, reaching PKR 1,618.9m as at Dec'24 (Jun'24: PKR1,318.8m, Jun'23: PKR 1,204.1m).
- A low-leverage balance sheet, coupled with a small debt component consisting of short-term loans, supports the Company's conservative capitalization profile, with the gearing and leverage ratio standing at 0.14x and 0.30x as at Dec'24 (Jun'24: 0.06x and 0.26x, Jun'23: 0.01x and 0.04x) respectively. During 6MFY25, the Company increased its short-term loan to augment its ready future transactions.

Corporate Governance

- The board of directors is represented by 5 members, inclusive of an independent representation.
- Additionally, the Company has three board level committees, all chaired by independent director, with board meetings held more than four times during FY24.
- Increasing the board size in order to avoid repetition of common members in board committees and to further strengthen overall governance framework will reflect positively on the assigned ratings.

FINANCIAL SUMMARY (amounts in PKR millions)					Appendix I
<u>BALANCE SHEET</u>	FY21	FY22	FY23	FY24	6MFY25*
Trade Debts	29.6	8.3	4.2	21.9	47.6
Long Term Investments	8.4	11.8	-	-	-
Short term Investments	786.0	1,514.1	1,149.5	1,324.6	1,691.1
Cash and Bank balances	110.3	250.1	17.4	170.3	143.4
Total Assets	1,304.2	1,886.9	1,261.4	1,658.8	2,102.6
Trade and Other Payables	174.2	57.3	18.1	211.0	221.0
Short Term Loans	179.3	778.3	11.5	78.0	220.0
Paid Up Capital	250.0	265.0	1,000.0	1,000.0	1,000.0
Net Worth (excluding revaluation surplus)	908.3	1,032.5	1,204.1	1,318.8	1,618.9
<u>INCOME STATEMENT</u>	FY21	FY22	FY23	FY24	6MFY25*
Total Revenue	537.7	259.2	281.6	290.1	404.9
Brokerage Income	146.0	59.7	38.2	83.9	84.8
Commodity Income	-	-	-	-	-
Advisory and consultancy fee	2.4	4.0	0.2	0.9	-
Dividend Income	2.6	3.9	1.4	1.5	2.3
Administrative Expenses	192.7	146.5	113.2	166.2	97.4
Finance Costs	16.2	18.3	10.5	29.4	22.3
Profit Before Tax	346.4	115.0	177.4	116.5	305.9
Profit After Tax	336.5	108.2	171.6	114.3	300.5
<u>RATIO ANALYSIS</u>	FY21	FY22	FY23	FY24	6MFY25*
Liquid Assets to Total Liabilities	238.4%	207.5%	2170.1%	443.9%	382.1%
Liquid Assets to Total Assets	68.7%	93.5%	92.5%	90.1%	87.2%
Leverage	0.41	0.82	0.04	0.26	0.30
Gearing	0.20	0.75	0.01	0.06	0.14
Current Ratio (x)	3.35	2.16	22.42	4.78	4.26
Efficiency (%)	104.7%	109.6%	60.7%	77.0%	53.1%
ROAA (%)	28.6%	6.8%	10.9%	7.8%	32.0%
ROAE (%)	45.0%	11.2%	15.3%	9.1%	40.9%

*Unaudited Accounts

REGULATORY DISCLOSURES		Appendix II			
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/Watch	Rating Action
<u>RATING TYPE: ENTITY</u>					
	21-February-2025	A-	A2	Positive	Reaffirmed
	28-December-2023	A-	A2	Positive	Maintained
	30-September-2022	A-	A2	Stable	Reaffirmed
	06-September-2021	A-	A2	Stable	Reaffirmed
	17-September-2020	A-	A2	Stable	Upgrade
	18-February-2020	BBB+	A2	Stable	Upgrade
	26-July-2019	BBB	A3	Stab-e	Upgrade
	30-March-2018	BBB-	A3	Stable	Upgrade
	31-October-2017	BB+	A3	Stable	Upgrade
	03-April-2017	BB	A3	Stable	Reaffirmed
	30-Dec-2015	BB	A3	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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	Name	Designation	Meeting Date		
	1 Mr. Noman Abdul Majeed Adam	Director	January 21, 2025		
	2 Mr. Muhammad Rizwan Haroon	Chief Financial Officer	January 21, 2025		