

BROKER FIDUCIARY RATING REPORT

Adam Securities Limited

REPORT DATE:

12 October, 2021

RATING ANALYSTS:

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RATING DETAILS

Broker Fiduciary Rating	BFR3++ <i>Good Fiduciary Standards</i>
Rating Rationale	The rating signifies sound internal controls and management and client services and business and financial sustainability while ownership and governance are considered adequate.
Rating Date	12 October, 2021

COMPANY INFORMATION

Incorporated in 2001	External auditors: M/s Baker Tilly Mehmood Idrees Qamar Chartered Accountants
Public unlisted Company	Chairman/ CEO: Mr. Muhammad Aftab Ghani
Key Shareholders (with stake 5% or more):	
<i>Noman Abdul Majeed Adam – 98.87%</i>	

APPLICABLE METHODOLOGY

Applicable Rating Criteria: Broker Fiduciary Ratings 2021

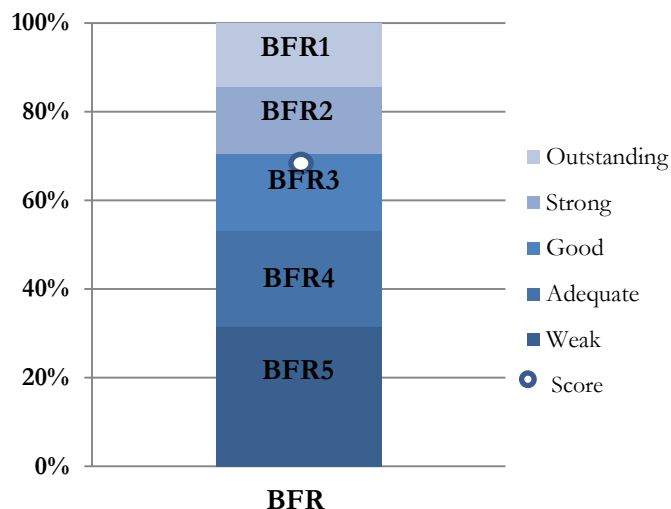
<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

Adam Securities Limited

CORPORATE PROFILE

Adam Securities (ASL) was incorporated in 2001 as a private limited company and subsequently became a public unlisted company in 2016. ASL is principally engaged in provision of equity brokerage facilities to domestic retail and institutional clients. Major shareholding of the company is vested with Mr. Noman Abdul Majeed who serves as a director of the company.

OVERALL GRADING



ASL is a Trading Right Entitlement Certificate (TREC) holder of Pakistan Stock Exchange. The company is also a Member of Pakistan Mercantile Exchange Limited (PMEX). External auditors are M/s Baker Tilly Mehmood Idrees Qamar Chartered Accountants. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP). ASL operates through its head office based in Karachi.

Business and Financial Sustainability Indicators

	FY21*	FY20	FY19
Size of Net Worth (Rs. In Millions)	923.28	586	487
Gearing x (total interest bearing debt/ total equity)	0.19x	-	0.15x
Leverage x (total liabilities/ total equity)	0.41x	0.78x	0.65x
Liquid Assets/ Total Liabilities (x)	2.93x	1.7x	0.7x
Short term Investments/ Total Equity (%)	85%	53%	19%
Market Share (%)	13%	13%	9%
Efficiency (%)	36%	40%	55%

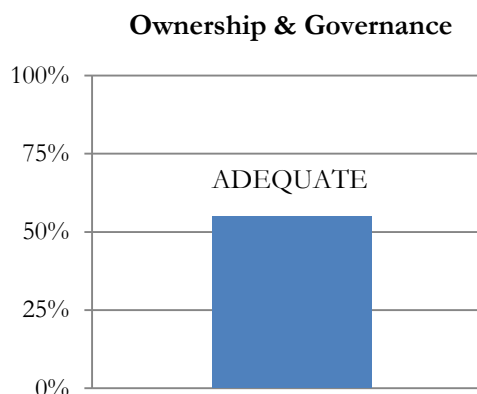
**Unaudited Accounts*

Adam Securities Limited

Rating Indicators

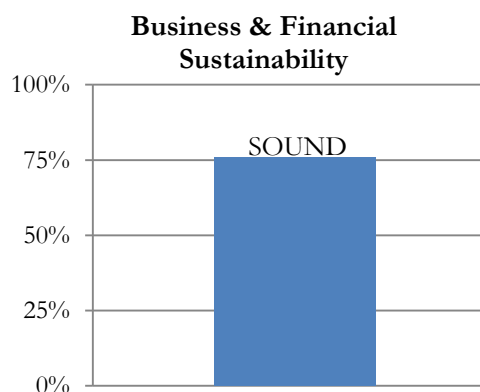
Ownership & Governance

- Governance framework remains adequate however, board size constraints the formation of independently represented board committees. Presence of an independent director on the board has been noted.
- Adding Statement of Compliance with Code in the company’s annual accounts would enhance disclosure level.



Business & Financial Sustainability

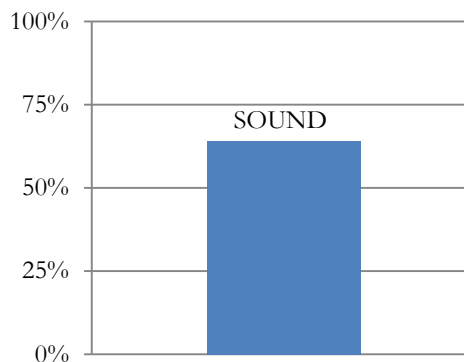
- Augmenting the revenue base with diversified income streams may improve the business risk profile of the company.
- Liquidity profile remains strong with liquid assets providing 2x coverage to liabilities.
- Quantum of short term investments in relation to equity stood was higher at the end of FY21 relative to FY20 depicting a higher assumption of market risk impacting the overall risk profile of the entity.
- Gearing 0.19x (FY20: 0.0x) and leverage 0.43x (FY20: 0.78x) indicators however remain low.
- Profitability profile witnessed significant improvement on a timeline basis backed by one-off capital gains; however sustainability of profits from core operations and retention of market share will be important for ratings.
- Cost to income ratio is supported by capital gains. Sustainability of the same will be important for maintaining operational efficiency.
- The underwriting quality of the company remained sound wherein of the total underwriting exposure of Rs. 109m in six underwriting commitments take up amounted to Rs. 1.4m.



Management & Client Services

- Management & client services remain sound with a well-integrated customer order tracking and reporting system, however, complaint management systems may be enhanced by adding complaint section on the website’s header.
- Room for strengthening business contingency framework exists through third party intervention for backing up data at a different location and increasing the frequency of disaster recovery exercises.

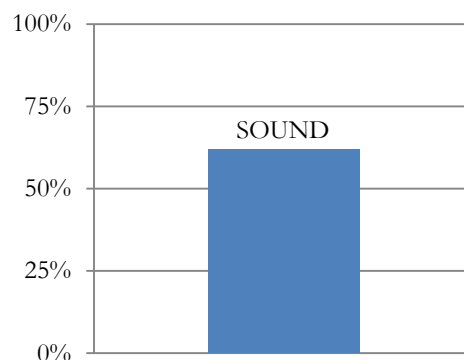
Management & Client Services



Internal Controls & Regulatory Compliance

- Internal control framework is sound with policies and procedures being in place; however, scope of Employee Trading Policy (ETP) may be improved by including guidelines for trading in blackout windows.

Internal Controls & Regulatory Compliance



Broker Fiduciary Rating Explained

In Securities Broker Fiduciary Rating (SBF), the strength of fiduciary role of the securities brokers is captured through the relative financial strength of the securities broker firm and its sponsors along with depth of internal control and governance framework, which are key rating ingredients. Responsiveness of the risk and internal control structure, quality of HR and soundness of the business infrastructure determine the strength of management and level of service quality of a stock broker. VIS Credit Rating Co. Ltd. (VIS) has developed a rating system that evaluates brokerage firms on the basis of such practices and the systems instituted to safeguard investor interests are at the forefront.

FIDUCIARY RATING SCALE & DEFINITIONS

Appendix I

RATING SCALE & DEFINITIONS: SECURITIES BROKER FIDUCIARY RATING

BFR1

Outstanding fiduciary standards

BFR4++, BFR4+, BFR4

Adequate fiduciary standards

BFR2++, BFR2+, BFR2

Strong fiduciary standards

BFR5++, BFR5+, BFR5

Weak fiduciary standards

BFR3++, BFR3+, BFR3

Good fiduciary standards

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

Adam Securities Limited

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Adam Securities Limited				
Sector	Brokerage				
Type of Relationship	Solicited				
Purpose of Rating	Broker Fiduciary Rating (BFR)				
Rating History	Rating Date	Rating	Rating Outlook	Rating Action	
	RATING TYPE: BFR				
	12/10/2021	BFR3++	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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