

BROKER FIDUCIARY RATING REPORT

Adam Securities Limited

REPORT DATE:

7 November, 2022

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 while business financial sustainability along with ownership and governance are considered adequate.
Rating Date	7 November, 2022

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY

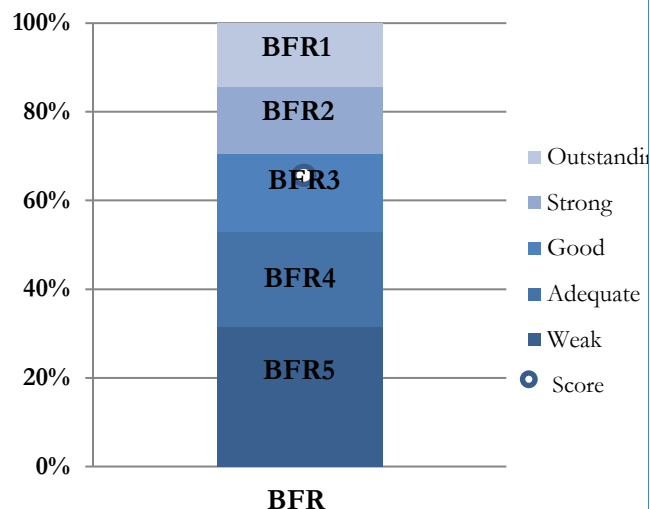
Applicable Rating Criteria: Broker Fiduciary Ratings 2021
<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

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

	FY22*	FY21	FY20
Size of Net Worth (Rs. In Millions)	1,037	928	586
Gearing x (total interest bearing debt/ total equity)	0.75x	0.19x	-
Leverage x (total liabilities/ total equity)	0.82x	0.41x	0.78x
Liquid Assets/ Total Liabilities (x)	2.07x	2.93x	1.7x
Short term Investments/ Total Equity (%)	145%	85%	53%

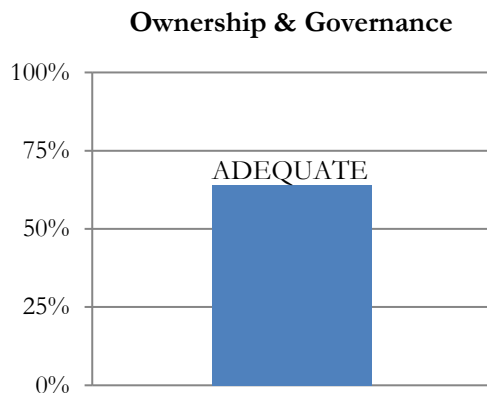
**Unaudited Accounts*

Adam Securities Limited

Rating Indicators

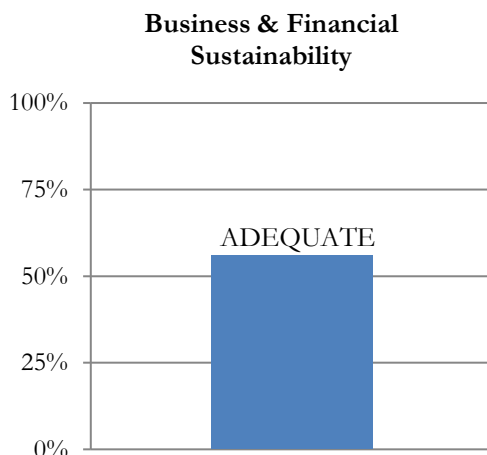
Ownership & Governance

- The Company’s board is represented by 5 members along with independent representation. Additionally, the board also consists of one female director, however, repetition of members has been observed in independent board committees.
- Inclusion of certified members in the board may further strengthen the Company’s governance framework.
- Disclosure levels remain adequate.



Business & Financial Sustainability

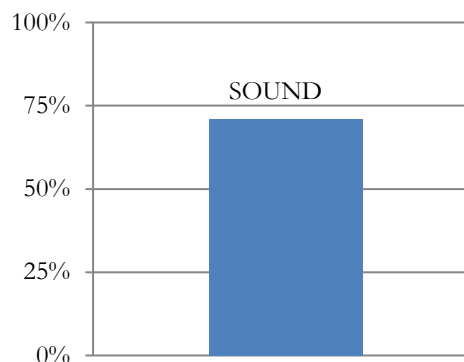
- During FY22, the Company’s core brokerage income declined on account of subdued market activity, however revenues from other sources such as advisory and underwriting depicted improvement.
- The Company’s cost to income ratio has also increased 151% from 124% however, the same decreases to 38% after incorporating capital gains earned during FY22.
- Liquidity profile of the Company remains sound.
- Market risk remains manageable given that almost 2/3rd of the total short-term investment portfolio is deployed in mutual funds and T-bills during FY22.
- Capitalization indicators depict increase on account of increase in short term borrowings in support of investment portfolio.
- Going forward, diversity in revenues maintaining low market risk and improvement in cost to income ratio and capitalization indicators will remain important for rating.



Management & Client Services

- Disclosure of commission slabs on the Company’s website is expected to facilitate clients.
- Company’s organizational structure is compatible with its size of operations, however Chief Financial Officer and Compliance Officer positions may be segregated for clarity in reporting lines.
- Increase in frequency of exercising disaster recovery practices has been noted.

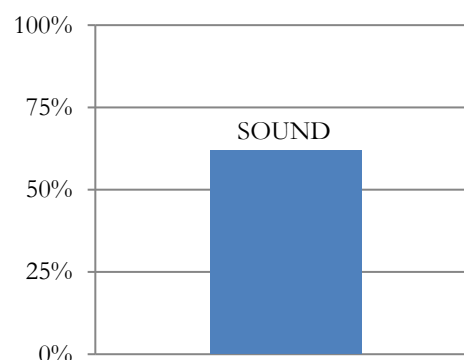
Management & Client Services



Internal Controls & Regulatory Compliance

- Increasing the frequency of review and documenting of internal control system and compliance may further strengthen the internal control framework.
- Periodic review of order recording may be considered instead of exercising the same on as and when needed basis.
- Measures to ensure client confidentiality are in place.
- Overall compliance and risk management framework is sound.

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			
	7/11/2022	BFR3++	Stable	Reaffirmed
	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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