

## BROKER FIDUCIARY RATING REPORT

### Adam Securities Limited

**REPORT DATE:**

28 December, 2023

**RATING ANALYSTS:**

Syeda Batool Zehra Zaidi

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#### RATING DETAILS

<b>Broker Fiduciary Rating</b>	<b>BFR3++</b> <i>Good Fiduciary Standards</i>
<b>Rating Rationale</b>	The rating signifies sound internal controls and management and client services while business financial sustainability along with ownership and governance are also considered sound.
<b>Rating Date</b>	28 December, 2023

#### COMPANY INFORMATION

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

#### APPLICABLE METHODOLOGY

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

#### APPLICABLE RATING SCALE(S)

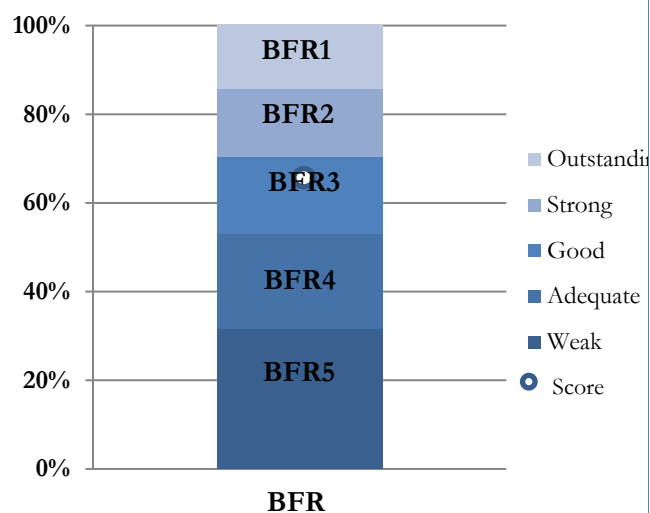
**VIS Issue/Issuer Rating Scale:**
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

**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 Mehmoed 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**

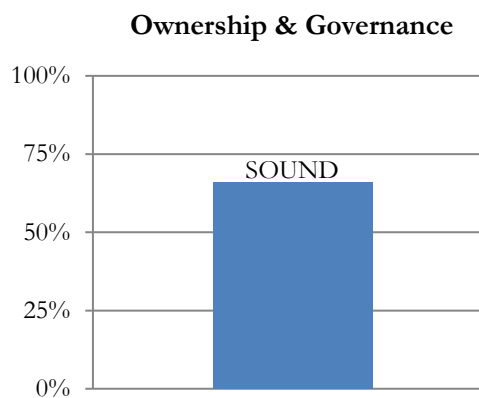
	FY21	FY22	FY23
Size of Net Worth (Rs. In Millions)	928	1,032	1,204
Gearing x (total interest bearing debt/ total equity)	0.19x	0.75x	0.00x
Leverage x (total liabilities/ total equity)	0.41x	0.82x	0.04x
Liquid Assets/ Total Liabilities (x)	2.93x	2.06x	21.97x
Short term Investments/ Total Equity (%)	85%	147%	95%

**Adam Securities Limited**

**Rating Indicators**

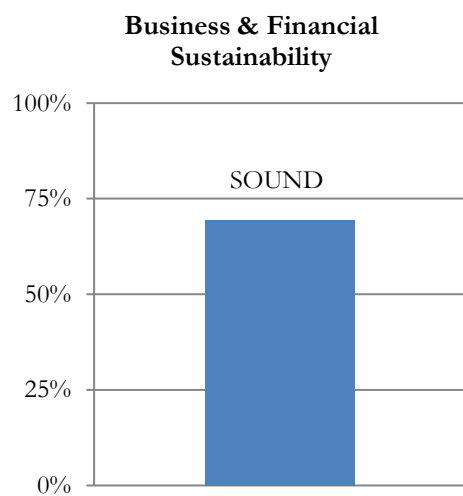
**Ownership & Governance**

- Overall ownership and governance levels of the Company are considered sound.
- At present, the Company has two board level committees chaired by independent directors with board meetings held more frequently.
- The Company may consider increasing their board size in order to avoid repetition of common members in board committees and to further strengthen overall governance framework.
- Disclosure levels are also considered sound, inclusion of director’s report and statement of compliance has been noted.



**Business & Financial Sustainability**

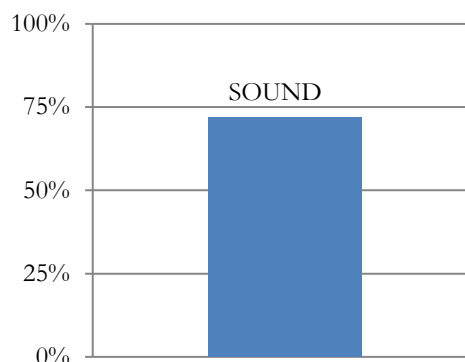
- In tandem with industry trend, the Company’s earning profile faced challenges during the year due to contraction in market volumes and decline in revenues. Total revenue of the Company decreased to Rs. 222m (FY22 275m).
- The Company’s cost to income ratio depicts a decline, however still remaining on the higher side.
- Liquidity profile of the Company remains sound with liquid assets providing more than ample coverage to total liabilities during FY23.
- Market risk of the Company remains manageable given high T-bill and mutual fund investments in the portfolio, albeit quantum of short term investments in relation to equity has declined albeit remaining high.
- Capitalization indicators 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 base.
- Going forward, maintenance of low market risk, gearing and leverage, low cost to income ratio and further improvement in diversification of revenue stream will remain important.



**Management & Client Services**

- The Company’s organizational structure is commensurate with the size of operations, however inclusion of a separate risk department may be considered.
- Chief Financial Officer and Compliance Officer positions may be segregated for clarity in reporting lines.
- Availability of research reports and trading resources on the Company’s website and social media platforms has been noted positively however, availability of equity research reports on the Company’s website may be considered for improved client facilitation.

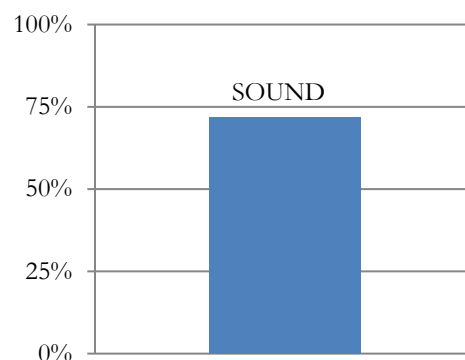
**Management & Client Services**



**Internal Controls & Regulatory Compliance**

- Increase in the frequency of review and documenting of internal control system and compliance procedures has been noted.
- Periodic review of order recording on monthly basis has also been noted positively.
- Measures to ensure client confidentiality are in place.
- Overall compliance and risk management framework is considered 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.*

**Adam Securities Limited**

<b>REGULATORY DISCLOSURES</b>		<b>Appendix II</b>		
<b>Name of Rated Entity</b>	Adam Securities Limited			
<b>Sector</b>	Brokerage			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Broker Fiduciary Rating (BFR)			
<b>Rating History</b>	<b>Rating Date</b>	<b>Rating</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: BFR</b>			
	28/12/2023	BFR3++	Stable	Reaffirmed
	7/11/2022	BFR3++	Stable	Reaffirmed
	12/10/2021	BFR3++	Stable	Initial
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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.			
<b>Probability of Default</b>	N/A			
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