RATING REPORT

Elixir Securities Pakistan (Private) Limited

REPORT DATE:
February 8th, 2019

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		**Previous Rating**	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	BBB	A-3	BBB	A-3
Rating Date	*February 8th, 2019*		*April 10th, 2017*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION	
Incorporated in 1994	**External auditors:** M/s Muniff Ziauddin & Co. Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Mohsin Khalid
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Fawaz Valiaani
Elixir Capital Private Limited– 99.98%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (May 2015) ***http://www.jcrvis.com.pk/Images/Securities%20methodology%201%20-2015.pdf***

Elixir Securities Pakistan (Private) Limited

OVERVIEW OF THE INSTITUTION

Elixir Securities Pakistan (Private) Limited is involved in provision of securities brokerage and financial advisory services. The company holds Trading Rights Entitlement Certificate (TREC) issued by Pakistan Stock Exchange Limited (PSX) and is a licensed and regulated entity with the Securities and Exchange Commission Pakistan Limited (SECP) and Pakistan Stock Exchange Limited (PSX).

External auditors of the company are 'M/s Muniff Ziauddin & Co. Chartered Accountants'. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Profile of Chairman

Mr. Mohsin Khalid is currently Managing Director of ITC Logistics and Executive Director of Ittehad Steel. Previously he served in leadership positions in Islamabad Electric Supply Company, Islamabad Chamber of Commerce & Industry and Islamabad Stock Exchange. He has previously advised the government in several capacities as member of FBR's Tax Advisory Committee, member of the Higher Education Commission's National Curriculum Review Committee and SBP's Credit Advisory Committee – North. Mr. Khalid holds a Bachelor's degree in Economics from Boston

RATING RATIONALE

Incorporated in 1994, as a private limited company, Elixir Securities Pakistan (Private) Limited (Elixir) is an independent boutique Investment Banking & Capital Markets Advisory firms in Pakistan. The principal business activities include Investment Banking Services (Strategic Advisory covering Mergers & Acquisitions, Debt & Equity Capital Raising, Sovereign & Privatizations, Corporate Finance & Restructurings), Securities Brokerage (covering Equities, Fixed Income and Commodities) and Investment Research (Economics & Securities). Clients include the Government of Pakistan, Foreign & Domestic Financial Institutions (Banks, Asset Managers, Insurance Companies, Sovereign Wealth Funds, Pension Funds), Multinational & Pakistani Blue-Chip Corporates and HNWI's. This is supported by a sound independent research capability.

Previously (till April 30, 2015), the company was under the ownership of Patek (Private) Limited, a Dawood Group company; however, subsequently upon the acquisition, entire shareholding was transferred to Elixir Capital (Private) Limited (ECPL) ~ a company co-founded by the Chairman and CEO of Elixir namely Mr. Mohsin Khalid and Mr. Fawaz Valiaani, respectively.

Key Rating drivers

Brokerage industry continues to be affected by economic cycles. Declining trend in trading volumes during FY18 and the ongoing year has impacted the topline of brokerage industry

Political uncertainty due to elections, aggressive foreign selling, rising current account deficit and expected slow-down in GDP growth has translated into dismal performance of the benchmark index over the last 18 months. Resultantly, market volumes have posted a noticeable decline during the period. Decline in ready market volumes during FY18 was more pronounced at around 49.1% for ready market as compared to future volumes where remained stagnant. Given the operating environment, players with efficient and variable cost structures focusing on high margin business and diversification in revenue streams are expected to fare better vis-à-vis peers. Players with large proprietary books have also witnessed losses given weak market performance.

Industry Data (Ready+Future)	Volumes in millions	Value in millions
FY17	100,345	4,756,168
FY18	58,401	2,881,120
Growth in FY18	*-42%*	*-39%*
1HFY19	31,182	1,304,415
Annualized growth in 1HFY19 vis-à-vis FY18	*7%*	*-9%*

Going forward, focus of brokerage companies is expected to remain on cost rationalization, increased portfolio diversification into derivatives and focus on higher margin business. Moreover, given low base effect of ready market volumes & growing volumes in the future segment and improved valuations post two consecutive years of decline in benchmark index, overall market volumes during FY19 are expected to be higher vis-à-vis FY18.

Given the challenging operating environment, there has been a strategic shift in strategy with significant focus on corporate finance advisory. On the brokerage front, focus is on high margin business.

In the backdrop of pressure on brokerage volumes and increasing cost of brokerage business (increasing KYC and compliance requirements), management is now focusing on high margin business. In line with this strategy, Lahore and Islamabad branches were closed with high net worth clients being serviced through the head office in Karachi. This along with streamlining of organization structure has resulted in reduction in overheads in CY18. Moreover, enhanced focus on capital market advisory has resulted in

University, USA.

Profile of CEO

Mr. Fawaz Valiaani possesses over 19 years of experience in securities brokering, investment banking & private wealth management. Prior to joining Elixir, he served as an Executive Director & COO at BMA Capital and Head of Advisory & Principal Investments at Halkin Investments LLP. He was also the Founder & CEO of Valliani Capital. Mr. Valiaani graduated from The George Washington University in Washington DC with a Bachelor's degree in Business Administration (BBA) in Finance & Investments.

sizeable signed mandates for the company. This is projected to be translated into significant jump in corporate finance income in CY19.

Profitability profile has depicted weakening. Going forward, translation of revenues from healthy corporate advisory deal pipeline is considered important from a ratings perspective

Overall operating revenues witnessed a noticeable decline during CY18. Decline was primarily driven by brokerage revenues which reduced to around half of CY17 levels. Besides decline in volumes, reduction in scrip prices has translated into lower commission per share and hence lower brokerage revenues. In absolute terms, income from corporate finance segment remained around prior year level in CY18. On an annualized basis, administrative expenses declined by 21.4% in 2018. Rationalization of headcounts, consolidation of branches, reduction of fixed overheads and various other cost cutting measures have facilitated in the decline in operating expenses. However, given the higher decline in revenues vis-à-vis expenses, cost to income ratio increased on a timeline basis and remains on the higher side. Absence of capital gains on PSX shares also contributed to decline in overall profitability. Going forward, translation of sizeable signed mandates on the corporate finance front is considered important for improvement in profitability profile.

Capitalization indicators have weakened on a timeline basis due to attrition in equity base. Liquidity buffer has declined but remains adequate.

Equity base of the company has decreased considerably to Rs. 207.4m at end-HY18 (CY17: Rs. 279.3m; CY16: Rs. 327.3m) on account of loss incurred. Debt profile of the company is entirely short term in nature. Despite a decrease in trading volumes, running finance utilization has remained at levels similar to preceding year on account of significant increase in non-IDS clients. Debt leverage and gearing were reported on the higher side at 1.34x (CY17: 1.15x) and 0.92x (CY17: 0.70x) respectively at end-HY18. Liquid assets in relation to total liabilities decreased to 33.8% (CY17: 34.6%; CY16: 55.2%) at end-HY18.

Corporate governance structure.

During the period under review, Elixir carried out changes at functional level with reduction in staff headcount in order to reduce cost inefficiencies. Board of Directors (BoD) includes members with broad experience in financial sector and the management team comprises seasoned professionals. However, increase in board size, inclusion of independent directors and formation of Board Audit Committee is required to enhance board level governance.

FINANCIAL SUMMARY (amounts in PKR millions)		Appendix I
BALANCE SHEET	**CY17**	**CY16**
Trade Debts	333.2	334.7
Investments	36.3	101.0
Cash and Bank balances	110.5	199.7
Total Assets	599.5	764.5
Trade and Other Payables	121.2	232.0
Long Term Borrowing	-	-
Short Term Borrowing	196.2	197.5
Net Worth	279.3	327.3
INCOME STATEMENT	**CY17**	**CY16**
Total Revenue	303.7	305.3
Brokerage Income	173.7	147.2
Advisory Income	49.1	141.4
Administrative Expenses	238.2	209.3
Finance Costs	29.0	17.9
Profit Before Tax	29.8	78.1
Profit After Tax	17.0	57.0
RATIO ANALYSIS	**CY17**	**CY16**
Market Share (Share Turnover) (%)	3.2%	2.7%
Commission Income / Turnover (Paisa/Share)	9.1	7.1
Liquid Assets to Total Liabilities	34.6%	55.2%
Liquid Assets to Total Assets	18.5%	31.4%
Debt Leverage (x)	1.1	1.3
Gearing (x)	0.7	0.6
Efficiency (%)	119.8%	78.6%
ROAA (%)	2.8%	8.6%
ROAE (%)	7.3%	22.9%

ISSUE/ISSUER RATING SCALE & DEFINITIONS   Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

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.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix VI

Name of Rated Entity	Elixir Securities Pakistan (Private) 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
RATING TYPE: ENTITY				
8-Feb-19	BBB	A-3	Stable	Reaffirmed
10-Apr-17	BBB	A-3	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	JCR-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.
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