RATING REPORT

BMA Capital Management Limited

REPORT DATE:
March 9, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*March 6, 2018*		*October 5, 2016*	

COMPANY INFORMATION

Incorporated in 1992	**External auditors:** RSM Avais Hyder Liaquat Nauman Chartered Accountants
Unlisted Public Limited Company	**Chairman of the Board:** Mr. Moazzam Mazhar Malik
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Nadir Rahman
Ganjbaksh Mauritius Limited – 49.0%	
Mr. Moazzam Mazhar Malik – 29.0%	
Mr. Mudassar Mazhar Malik – 14.0%	
Ms. Shehla Mazhar – 8.0%	

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

BMA Capital Management Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

BMA Capital Management Limited (BMA) was incorporated in 1992 as an unlisted public limited company. Financial statements for FY17 were audited by M/s RSM Avais Hyder Liaquat Nauman & Co., Chartered Accountants. The external auditors are in Category 'A' of SBP's panel of auditors for FY17.

BMA Capital Management Limited (BMA) was incorporated in 1992 under the Companies Ordinance 1984 as a public limited company. BMA is principally engaged in provision of equity, fixed income brokerage as well as corporate advisory services. Majority shareholding (51%) of the company is vested with the Mazhar family whereas 49% of BMA's ownership is represented by Ganjbaksh Mauritius Limited (GML).

BMA operates through its head office together with the branch network of nine branches country wide. BMA expanded its branch network as five of these nine branches were added during the outgoing fiscal year.

Rating Drivers:

Corporate governance: Board level governance and compliance to regulatory requirements is considered sound. Board of Directors (BoD) comprises five members, including an independent director. However, Board composition has room for improvement with regards to mix of independent and executive directors. All members are well experienced in the financial services sector. Board Audit Committee (BAC) has been formed and is chaired by an independent director as per best practices.

Internal Control and IT infrastructure: BDO Ebrahim & Co. has been appointed for providing internal audit services to the company. Moreover, the scope also includes preparation of standard operating policies and procedures for all departments of the company. Considerable efforts have been made by the management in order to enhance IT infrastructure. Steps include adding the live fills system to improve transparency and efficiency in execution of orders and addition of servers to improve system availability. Furthermore, facilities offered to clients have been enhanced to include online account opening form and online same day fund transfer facility.

Asset Mix: Total assets of the company have increased significantly year on year with majority of growth manifested in deposits and prepayments owing to higher volumes during FY17. Furthermore, trade debts have also exhibited a sizeable increase. However, as more than 98% of receivables are within 30 days, credit risk is considered manageable. Short term investments have grown to Rs. 325.9m (FY16: Rs. 136.7m) at end FY17. Although market risk in relation to equity is considered manageable, the portfolio features concentration, as a single scrip comprises around 83% of short term investments.

Profitability: During FY17, the company witnessed sizeable growth of 77.4% from last year in equity brokerage income owing to an increase in volume of shares traded. Overall market volumes showcased an increase of around 67% due to reclassification of PSX from frontier market to emerging market in the MSCI Index. The same enabled the company's top line to grow by 58.2% in FY17. Highest proportion of commissions emanated from foreign institutions during outgoing year. In addition to this, retail base is also expected to grow further in line with BMA's strategy of branch expansion. However, decline in profitability is expected in HY18 on account of a 58% decline in traded volumes of PSX all share index during the same period compared to HY17. This significant decline in volumes is an industry wise phenomenon. Furthermore, there is room for improvement in diversification of revenues.

Liquidity and Capitalization: Equity base of the company increased in FY17 on account of adjustment in value of Pakistan Stock Exchange (PSX) shares and retention in profits. Despite higher liquid assets, liquid assets in relation to total liabilities declined owing to sizeable increase in short term financing. Leverage indicators have exhibited an increase at end FY17 as BMA borrowed funds in order to enhance its exposure deposits. However, average gearing during FY17 remained within manageable levels.

Underwriting: There were three underwriting mandates undertaken during the year. BMA remained compliant with its overall and per party underwriting exposure of 1.5x and 0.4x of equity, respectively.

Outlook

The company has showcased growth in equity brokerage revenue in FY17 largely due to reclassification of PSX from frontier to emerging market. Sustainability of brokerage income will be tested over time. The company has outsourced internal audit of its department; however completion of all department audits and regular meetings of BAC will enhance the internal control framework of the company.

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix I

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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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 II

Name of Rated Entity	BMA Capital Management 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				
5-Oct-2016	A-	A-2	Stable	Initial
6-Mar-2018	A-	A-2	Stable	Reaffirmed

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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