RATING REPORT

BMA Capital Management Limited

REPORT DATE:
April 9, 2019

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	*April 2, 2019*		*March 6, 2018*	

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. Moazzam Mazhar Malik
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)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (May 2015)
http://www.vis.com.pk/Images/Securities%20methodology%201%20-2015.pdf

BMA Capital Management Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 1992, BMA Capital Management Limited (BMA) is principally engaged in provision of equity, fixed income brokerage as well as corporate advisory services.

External auditors are 'RSM Avais Hyder Liaquat Nauman Chartered Accountants'. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Profile of Chairman & CEO

Mr. Moazzam Mazhar Malik possesses over 23 years of experience of management in the United Kingdom (UK), Middle East and Pakistan's financial markets. His experience includes serving as an advisor for the first ever privatization in Pakistan as well as deregulation of the telecom sector. Mr. Moazzam holds a Masters in Management from MIT Sloan School of Management, USA and Bachelor of Science in Electronics from University of Sussex, UK.

RATING RATIONALE

Operating in the broking business for over 25 years, BMA Capital Management Limited (BMA) is primarily engaged in provision of equity brokerage services with presence in money market, commodity and forex segments. The company caters to domestic retail and high net worth (HNWI) clients, local institutions and foreign broker dealers. Alongside, it also provides corporate advisory services. BMA's operations run through its head office in Karachi along with a network of 11 branches spread nationwide.

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 topline of the 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 96% 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.

PSX Data (Ready + Future)	Volumes (m)	Value (m)
FY17	100,345	4,756,168
FY18	58,401	2,881,120
% change in FY18	-42%	-39%
1HFY19	31,182	1,304,415
Annualized % change 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.

Market share has been maintained; business strategy has been aligned to focus on HWNIs and retail segment through branch expansion and relationship management.
In FY18, overall market volumes decreased by 42% vis-à-vis decline of 50% observed in BMA's volumes. As a result, BMA sustained its market share at 10% (FY17: 10%) in equity trading for the outgoing fiscal year. Retail clientele of the company stands at ~7000 individuals. Despite retail being a lower margin segment, the management plans to focus on growing retail base through branch network expansion and relationship management. In this regard, 4-5 branches are to be added in the next six months in the north region, (Chakwal, Sargodha, Azad Kashmir and two in Lahore), taking the total number of branches to 16.
With respect to international institutional business, BMA has 12 broker dealers and 2 end clients on its panel. Prominent broker dealers include Goldman Sachs, City Group, HSBC, Societe Generale. Post

FY17, draining foreign interest in the market and shrinking trading volumes resulted in a sharper decline in foreign brokerage income as compared to domestic retail and institutional segments. Going forward, 2-3 new broker dealers are planned to be added to the panel.

With operating losses observed in 1HFY19 and rising efficiency ratio, overall profitability indicators are not in line with rating benchmarks. Going forward, operating cost rationalization and achievement of envisaged retail focused business strategy is considered important for sustainable earnings.

Operating revenue (excluding investment income) declined by 47% during FY18 and was reported at Rs. 429.1m (FY17: Rs. 803.3m). The sizeable decrease is on account of lower brokerage revenue attributable to weak stock market volumes and decline in commission per share due to reduction in scrip prices. Equity brokerage continues to contribute four-fifth to operating revenue, while money market, forex and commodity brokerage account for less than 20% of the same. In absolute terms, corporate advisory fees remained around prior year level in FY18 while its revenue share remained low at 5% (FY17: 3%).

Efficiency ratio weakened to 103.5% (FY17: 76.2%) in FY18 and further to 114.6% during 1HFY19 on account of sizeable decline in brokerage revenue, efficiency ratio and profitability indicators are not in line with benchmarks for the assigned ratings. Despite compensation expenses accounting for half of operating costs, management considers human capital to be of strategic importance and does not plan to undertake any significant layoffs. Nevertheless, BMA is undertaking various initiatives to control operational expenses including a) administrative cost control measures, b) limiting proprietary book investments to avoid capital loss and c) revision of employee compensation structure with emphasis on variable terms.

Given attrition in topline, operating profitability decreased to Rs. 1.6m (FY17: Rs. 401.6m) in FY18 while the company reported operating losses in 1HFY19 of Rs. 11.2m. Going forward, with limited projected growth in non-brokerage income, revenue stream is likely to primarily remain a function of market volumes and thus, depict volatility. Accordingly, achievement of envisaged retail-focused branch expansion strategy, diversification in revenue base and operating cost rationalization is considered important for sustainable improvement in profitability.

Declining equity base on account of deteriorating earning profile although reduction in borrowing levels resulting from lower volumes is reflected in satisfactory leverage indicators.

Equity base of the company has decreased considerably to Rs. 583.8m (excluding surplus) at end-1HFY19 (FY18: Rs. 620.9m; FY17: Rs. 807.1m) on account of deterioration in accumulated profits and dividend payout of Rs. 75m in FY18. Debt profile of the company is largely short term in nature; declining significantly in FY18 on the back of lower trading volumes which resulted in reduced requirement of exposure deposits. Leverage indicators have exhibited a declining trend post FY17 on account of the same. Liquid assets in relation to total liabilities declined owing to sizeable decrease in liquid assets.

Manageable market, credit and liquidity risks.

Market Risk: During HFY19, entire short terms investments of Rs. 165.6m were liquidated. Going forward, the company maintains the investment strategy of undertaking exposures in selected scripts, as and when, potential upside in the value is identified by the management. Long term investment portfolio pertains to investments in subsidiaries and PSX shares.

Credit Risk: BMA has adequate due diligence procedures and policies available in addition to mechanism of clients' credit analysis. Applicable policies for leveraged products have been adopted and limits have been defined which are strictly monitored. Receivables from customers stood at Rs. 170.2m at end-HFY19 and their ageing is considered to be manageable.

Liquidity Risk: Liquid assets in relation to total liabilities decreased to 51.1% (FY18: 71.0%) in HFY19 on account of proprietary book investments and lower cash & bank balances. However, the same is considered satisfactory.

Adequate corporate governance framework.
During the period under review, in line with investment in HR and expansion in business, staff along with the head of investment banking function was replaced with more seasoned professionals having relevant experience. Moreover, an improvement was witnessed in IT infrastructure providing more efficient order execution system along with round the clock system availability. Board level governance of the company is considered sound; however, room for improvement exists in terms of board size and independent directors.

BMA Capital Management Limited **Appendix I**

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY16**	**FY17**	**FY18**	**1HFY19**
Trade Debts	129.1	647.0	187.6	170.2
Deposits and Prepayments	293.5	969.4	249.1	326.1
Long Term Investments	171.0	194.2	174.4	167.7
Proprietary Book	136.7	325.9	165.6	0.0
Cash and Bank balances	554.4	714.5	627.8	463.6
Taxation	79.3	135.0	143.8	179.3
Total Assets	**1,508.9**	**3,162.0**	**1,757.9**	**1,503.8**
Trade and Other Payables	508.1	834.2	611.3	447.6
Long Term Loans	163.4	167.0	165.6	109.0
Short Term Loans - Secured	293.9	1,314.9	340.4	350.4
Total Liabilities	**965.5**	**2,316.1**	**1,117.3**	**907.0**
Net Worth (Including surplus)	**543.4**	**845.9**	**640.6**	**596.9**
Adjusted Capital (Excluding surplus)	**543.4**	**807.1**	**620.9**	**583.8**
INCOME STATEMENT	**FY16**	**FY17**	**FY18**	**1HFY19**
Brokerage Income	474.9	759.9	392.6	169.1
Corporate Advisory Income	17.2	21.4	23.2	11.0
Operating Revenue	**528.0**	**803.3**	**429.1**	**183.2**
Investment Income	42.7	(110.4)	25.3	7.5
Administrative Expenses	412.2	608.3	461.3	220.4
Finance Cost	62.6	65.8	50.1	21.9
Profit Before Tax	162.9	335.8	(48.5)	(33.1)
Profit After Tax	**138.8**	**263.7**	**(110.3)**	**(37.1)**
RATIO ANALYSIS	**FY16**	**FY17**	**FY18**	**1HFY19**
Liquid Assets to Total Liabilities (%)	71.6	44.9	71.0	51.1
Liquid Assets to Total Assets (%)	45.8	32.9	45.1	30.8
Debt Leverage (x)	1.8	2.9	1.8	1.6
Gearing (x)	0.8	1.8	0.8	0.8
Efficiency (%)	68.1	76.2	103.5	114.6
ROAA (%)	9.2	11.3	(4.5)	(2.3)
ROAE (%)	25.5	39.1	(15.5)	(6.2)

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 III

Name of Rated Entity	BMA Capital Management Limited
Sector	Brokerage
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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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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
2-Apr-2019	A-	A-2	Negative	Maintained