RATING REPORT

BMA Capital Management Limited

REPORT DATE:
May 12, 2020

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Negative	
Rating Date	*May 12, 2020*		*April 2, 2019*	

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 (June 2017)
http://vis.com.pk/kc-meth.aspx

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 16 branches spread nationwide.

Key Rating Drivers:

Brokerage industry continues to be affected by economic cycles. Declining trend in trading volumes over the last 2 years has impacted topline of the brokerage industry although recovery has been witnessed in past six months.

Performance of the equity market has remained dismal over the past 2 fiscal years with dwindling trading volumes largely owing to economic slow-down, increasing interest rate environment and aggressive foreign selling. Decline in market volumes was more pronounced for ready market as compared to future market, where volumes remained stagnant. However positive investor sentiment resulting from improving macroeconomic indicators has led to recovery over last six months. This is reflected in the table below, wherein volumetric growth in trades stood at 15% in 1HFY20 vis-à-vis SPLY. The relatively lower value trade is explained by the generally lower market pricing during this period.

Table 1: Industry Trading Metrics (Volume & Value)

	FY17	FY18	FY19	1HFY19	1HFY20
Volume (Ready + Future) (In Billions)	100	58	55	31	36
Value (Regular) (In Billions)	4,756	2,881	2,235	1,304	1,300

Given tough market conditions, players with efficient and variable cost structure along with diversified revenue streams managed to remain profitable. On the other side, players with large proprietary books witnessed losses given weak market performance.

A positive development came into effect in October 14th 2019, when the SECP implemented a standard range/scale of brokerage commissions. This has certainly had a positive impact on the revenue stream of brokers. However, in addition to increased revenues, the standardization of commission scale is expected to translate in an improvement in industry-wide quality standards, as previously several brokerage houses were charging very low commissions rates, which was adversely affecting competition and creating a disadvantage for market participants in the form of disparity in service standards.

With shrinkage in proprietary book and increased liquidity, asset mix has improved on a timeline

After posting negative growth in the past couple of years (FY18-19), BMA's asset base grew by 43% in 1H'FY20, on account of improvement in trading volumes. In absolute terms, the asset base grew by Rs. 758m, with about a third of this growth emanating from the uptick in client deposits (+Rs. 253m), 41% from the short term borrowings (Rs. 309m) and 12% from long term financing (Rs. 90m).

Table 2: Balance Sheet (Extract)

Figures in PKR' Millions	Jun'18	Jun'19	Dec'19
Non-Current Assets	**377.0**	**314.7**	**308.9**
- **Long-term Investments**	174.4	153.0	153.0
- **Others**	202.6	161.7	155.9
Current Assets	**1,380.9**	**1,406.5**	**2,170.4**
- **Trade Debts**	187.6	109.5	338.6
- **Advances, Deposits, Prepayments etc.**	256.1	420.3	643.7
- **Proprietary Investments**	165.6	116.7	37.6
- **Cash & Bank Balances**	627.8	575.9	958.0
- **Taxation**	143.8	184.2	192.5
Assets	**1,757.9**	**1,721.2**	**2,479.4**
Liabilities	**1,117.3**	**1,142.4**	**1,860.6**
- **Creditors (Client Deposits)**	574.8	357.5	610.7
- **Long term Finance (incl. finance lease)***	87.8	222.8	313.0
- **Short Term Finance**	340.4	510.0	818.8
- **Current Portion of Long Term Finance**	77.8	14.8	17.5
- **Others**	36.5	37.3	100.5
Equity	**640.6**	**578.8**	**618.8**
- **Revaluation Surplus**	19.7	-	-
*Aggregate Long-term Liabilities			

The company's asset mix has become relatively conservative over a timeline, with the proprietary book being reduced to 1.5% of the asset base (Jun'19: 6.7%; Jun'18: 9.4%).The proprietary book comprises investment in equities (53%) and corporate debt instruments (47%). Given improvement in trading volumes and the uptick in client deposits, the liquidity position also depicted improvement, with cash & cash balances comprising 39% of the asset base (Jun'19: 33%).

Table 3: Proprietary Book (Dec'19)

Figures in PKR' Millions	Dec'19	
Equities – PSX Shares	13.5	36%
– HBL	6.3	17%
Debt Instruments – UBL	12.6	34%
– Agha Steel	5.1	14%

Table 4: Investment in Subsidiary

Figures in PKR' Millions	Dec'19
BMA Asset Management	150
BMA Energy Limited	3

The company continues to hold its investment in subsidiaries, amounting to Rs. 153m. In addition to its investment in BMA Asset Management, the company has also provided a loan of Rs. 50m, at the rate of 3-month KIBOR + 3% per annum. The aforementioned loan has been provided to meet the minimum equity requirement in compliance with requirements of SECP.

Given the increase in trading volumes, the quantum of deposits & prepayments has increased. Furthermore the trade debts have also increased, albeit we have reviewed the aging profile of the same, and it is considered to be sound, with more than three-fourths of the trade debts outstanding for a period less than 2 weeks.

BMA continues to maintain market positioning as a large-sized player while branch network has been increased in line with envisaged strategy

With improvement in trading volumes in 1H'FY20, BMA continues to maintain its market positioning in the brokerage industry as a large-sized player, with its major strength being its extensive retail clientele. In line with the strategy envisaged earlier, branch network has been increased to 16 from 11. 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.

After incurring back to back losses in FY18-19, the improved trading volumes in 1H'FY20 allowed the company to record a profit during the period

Table 5: Profit & Loss (Extract)

Figures in PKR' Millions	FY18	FY19
Brokerage & Advisory Revenue (net)	**429.2**	**358.1**
- Equity Brokerage	378.6	282.0
- Money Market	48.5	42.2
- Foreign Exchange	15.0	30.7
- Commodities	1.5	2.2
- Distribution Commission	15.0	6.4
- Advisory Fees	26.3	41.2
- Less: Sales Tax	(55.8)	(46.6)
Income on Margin Finance	**21.3**	**9.2**
Capital Gain / (Loss)	**(25.2)**	**(9.6)**
Other Income	**37.7**	**63.0**

Given depressed trading volumes in the past couple of years, the company's top line declined significantly to Rs. 429m in FY18, further shrinking to Rs. 358m in FY19, much lower than FY17 topline of Rs. 803m. However, given improvement in industry trading volumes, the company reported a topline of Rs. 228m in 1H'FY20, much better than SPLY (Rs.183m). Overall revenue mix continues to be significantly dependent on equity brokerage operations, which contribute ~80% of the company's topline. Nevertheless, diversification has improved on a timeline and is aligned with peers.

Given increased liquidity retention, which is mainly being maintained in the form of placements with banks, the profit on saving accounts has been a major contributor to revenue stream. In table 5 above, the profit on saving accounts is included in the other income, constituting about two-thirds of the other income in FY19.

Table 6: Profitability Indicators

	FY17	FY18	FY19	1H'FY20
Efficiency (%)	**80.0**	**104.8**	**108.5**	**84.5**
RoAA (%)	**11.3**	**(4.5)**	**(3.5)**	**3.8**
RoAE (%)	**39.1**	**(15.5)**	**(10.4)**	**13.7**

On account of the shrinkage in top line, the staff overheads were reduced by about 6% in FY18 and another 5% in FY19. Nevertheless, the efficiency ratio remained above 1x. Given higher revenue base in 1H'FY20, the efficiency ratio has fallen back to ~85%, which is aligned with FY17 level.

Losses incurred during FY18-19 have impacted BMA's capitalization resulting in gearing and leveraging (adjusted) rising above the peer group median

Table 7: Gearing & Leverage

	FY17	FY18	FY19	1H'FY20
Gearing	**1.8x**	**0.8x**	**1.3x**	**1.9x**
Leverage	**2.9x**	**1.8x**	**2.0x**	**3.1x**
Adjusted Gearing	**2.4x**	**1.3x**	**2.1x**	**2.9x**
Adjusted Leverage	**3.8x**	**2.8x**	**3.1x**	**4.7x**
***adjusted for investment and loan to subsidiary**				

The back to back losses incurred in FY18-19 and dividend paid on FY17 profits, the company's equity base[1] has eroded by 30% as of Jun'19 vis-à-vis Jun'17. Given lower trading volumes, both gearing and leverage reduced during the period. However, both measures have depicted significant increase in 1H'FY20. Adjusting for strategic investments and loans to subsidiary, these measures stand on the higher side and compare adversely to peers. Given improvement in industry profitability, gearing & leverage are both expected to reduce on the back of internal capital generation.

Adequate corporate governance framework.

Board level governance of the company is considered sound; however, room for improvement exists in terms of board size and independent directors. Adequate control functions are in place. Senior management team comprises seasoned professionals having relevant experience. However, since the resignation of the last CEO, the Board chairman has been appointed as the CEO, which deviates from corporate governance best practices.

[1] Excludes Surplus on Revaluation

BMA Capital Management Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	Jun'17	Jun'18	Jun'19	Dec'20
Trade Debts	647.0	187.6	109.5	338.6
Deposits and Prepayments	969.4	249.1	404.5	627.2
Long Term Investments	194.2	174.4	153.0	153.0
Proprietary Book	325.9	165.6	116.7	37.6
Cash and Bank balances	714.5	627.8	575.9	958.0
Taxation	135.0	143.8	184.2	192.5
Total Assets	**3,162.0**	**1,757.9**	**1,721.2**	**2,479.4**
Trade and Other Payables	834.2	611.3	394.8	711.2
Long Term Loans	167.0	165.6	237.6	330.6
Short Term Loans – Secured	1,314.9	340.4	510.0	818.8
Total Liabilities	**2,316.1**	**1,117.3**	**1,142.4**	**1,860.6**
Paid-up Capital	**66.0**	**66.0**	**66.0**	**66.0**
Net Worth	**807.1**	**640.6**	**578.8**	**599.0**

INCOME STATEMENT	FY17	FY18	FY19	1H'FY19	1HFY20
Brokerage Income	781.9	402.9	316.9	172.2	215.1
Corporate Advisory Income	21.4	26.3	41.2	11.0	12.9
Operating Revenue	**803.3**	**429.2**	**358.1**	**183.2**	**228.0**
Investment Income	187.6	(3.9)	(0.4)	(2.4)	7.6
Other Income	19.0	37.7	63.0	28.4	53.7
Administrative Expenses	608.3	461.3	418.5	220.3	197.4
Finance Cost	65.8	50.1	48.3	21.9	44.2
Profit Before Tax	335.8	(48.6)	(46.0)	(33.0)	47.7
Profit After Tax	**263.7**	**(110.3)**	**(61.8)**	**(37.0)**	**40.0**

RATIO ANALYSIS	FY17	FY18	FY19	1HFY20
Liquid Assets to Total Liabilities (%)	44.9	71.0	60.6	53.5
Liquid Assets to Total Assets (%)	32.9	45.1	40.0	40.2
Debt Leverage (x)	2.9	1.8	2.0	3.1
Gearing (x)	1.8	0.8	1.3	1.9
Efficiency (%)	80.0	104.8	108.5	84.5
ROAA (%)	11.3	(4.5)	(3.5)	3.8*
ROAE (%)	39.1	(15.5)	(10.4)	13.7*

*Annualized

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12-May-2020	A-	A-2	Stable	Maintained
2-Apr-2019	A-	A-2	Negative	Maintained
6-Mar-2018	A-	A-2	Stable	Reaffirmed
5-Oct-2016	A-	A-2	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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Due Diligence Meetings Conducted	NA