RATING REPORT

BMA Capital Management Limited

REPORT DATE:
October 15, 2021

RATING ANALYST:
Muhammad Tabish
muhammad.tabish@vis.com.pk

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	*Oct 15, 2021*		*May 12, 2020*	

COMPANY INFORMATION	
Incorporated in 1992	**External auditors:** RSM Avais Hyder Liaquat Nauman Chartered Accountants
Unlisted Public Limited Company	**Board Chairman/ CEO :** Mr. Moazzam Mazhar Malik
Key Shareholders (with stake 5% or more):	
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 (July 2020) **https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/SecuritiesFirm202007.pdf**

BMA Capital Management Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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 35+ 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.

BMA Capital Management Limited (BMA Capital) with nearly three decades of experience has been engaged in provision of equity brokerage services with presence in commodity, fixed income and forex segment. BMA Capital caters to domestic retail, high net worth individuals and local and foreign broker dealers. Alongside, economic research and corporate financial advisory are other valued added services offered by the company. At present, total staff strength stands at around 200 employees. Headquartered in Karachi, the brokerage house has a nation-wide branch network of total 19 branches, of which 3 branches were added to the network in the outgoing fiscal year.

Long-term Investments

BMA Capital 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 sub-ordinated loan of Rs. 60m in FY20.

<u>Key Rating Drivers:</u>

PSX volumes witnessed a sizeable jump in the outgoing fiscal year. Thus, positively impacting the profitability profile of brokerage industry.

After two consecutive years of dismal trading activity, volumes of PSX rebounded with a year-on-year growth of 32% in FY20 and a sizeable jump of 144% in FY21. This increase in trading volumes was mainly due to an uptick in economic activity and sustained recovery following the ease of lockdown after first wave of Covid-19 while pandemic-induced market volatility and lower prevailing interest rates also attracted investors, thus supporting trading volumes. Accordingly, in tandem with trading volumes, brokerage revenues grew across the industry. This supported the profitability of brokerage companies, some of which had slipped into losses during the 3-year period FY17-19.

Table: Industry Trading Metrics

PSX Data (Ready + Future)	FY18	FY19	FY20	FY21
Volume (In Billions)	58	55	68	166
Value (In Billions)	2,874	2,224	2,570	6,919

Steps taken by SECP & PSX seem to be supportive with respect to ease of doing business and will boost investors' confidence. Outlook for the brokerage industry is considered favorable.

New regulations in the industry include SECP's capital market reforms, wherein small-sized brokerage houses will now not be allowed custody of customer's assets. Further, SECP has made a commission slab to minimum of 3 paisa or 0.15% of traded value whichever is higher and maximum of 2.5% of traded value. This facilitated in promotion of a healthy competition and supported profitability profile of the brokerage sector.

Regarding account opening process, SECP has simplified it by allowing brokers to complete the whole process online. Moreover, regulator is currently in the process of streamlining KYC & AML compliance regulations. Moreover, PSX has launched several Exchange Traded Funds (ETF's) and Murabaha Share Financing (MSF), which allow investors access to lower cost asset management along with access to credit. Going forward, growth in overall economic indicators and major steps taken by SECP & PSX to boost investors' confidence will further increase the trading activity on PSX over next 2-3 years and outlook for the brokerage industry is considered favorable for the medium-term.

Market share has sustained; extensive branch network is a competitive strength. Overall client base has witnessed a sizeable growth in the outgoing fiscal year. Future business strategy is aligned to pursue the growth mode on all fronts with particular focus on retail penetration.

BMA Capital's market share (in volumetric terms and excluding in-house investment trading) has sustained at 7.0% (FY20: 7.6%; FY19: 5.3%) in FY21. The company's extensive branch network continues to provide a competitive edge for retail penetration, which is evident from consistent growth of domestic retail clientele over the past four years. At present, retail client base stands at 14K+ individuals (of which ~61% are active including 107 HNWI), growing by ~39% vis-à-vis previous year. This growth is attributable to BMA Capital's strategic decision to expand its retail footprint nationwide and market dynamics that followed. With respect to international institutional business, sizeable new clients were taken on board during the period under review. Few prominent foreign broker dealers include Goldman Sachs, City Group, HSBC and Societe Generale.

Going forward, future business strategy is aligned to pursue the growth mode on all fronts with particular focus on retail penetration. In view of same, the management has planned to add 3 branches to the network (2 in northern region and 1 in interior Sindh) in the ongoing fiscal year.

Uptick in industry trading volumes has significantly improved the brokerage revenue. Revenue contribution from corporate advisory pipeline is expected to remain healthy over the rating horizon.

The equity brokerage commission has doubled in the outgoing fiscal year on account of sizeable jump in trading volumes while overall recurring revenues depicted a strong growth of ~87%. More than four-fifth of revenue is generated from equity brokerage activities; nevertheless, diversification has improved on a timeline basis and is aligned with peers. In terms of segment wise brokerage income, around 79% is generated by domestic retail base, 14% by domestic institutions and the remaining is shared by foreign clients. The management expects growth in revenues generated from foreign business post MSCI rebalancing takes effect. On corporate advisory front, there are adequate deals in pipeline which would translate into a healthy income for the segment over the rating horizon. Furthermore, gain on sale of investments significantly supported the profitability profile in FY21.

Operating overheads in line with growth in topline increased considerably by ~70% mainly due to increase in commission expense and directors' remuneration whereas financial charges declined given the decrease in benchmark rates. Despite higher recurring income, the company's cost-income ratio depicted slight weakening to 69.5% (FY20: 68.6%) which is on the higher side vis-à-vis peers. As per management, the same is expected to remain at similar levels.

Conservative asset allocation with small-sized proprietary book translates into low liquidity risk profile.

The company maintains a conservative asset allocation strategy with 40% of asset base being maintained in the form of cash and bank balances; liquid assets coverage of liabilities is considered sound. In line with the increase in trading volumes, the quantum of deposits &

prepayments has more than doubled and trade debts have increased on a timeline basis. However, ageing of the same is indicative of low credit risk with more than three-fourth of trade debts outstanding for a period of less than 14 days.

Market risk is on the lower side as the company's participation in propriety trading has remained minimal on a timeline basis, which is in line with international best practices. Moreover, the proprietary book comprises investment in equities (92%) and corporate debt instruments (8%).

Capitalization has depicted improvement; leverage indicators have trended upwards in line with the increase in trading volumes.
On the back of improved profitability, equity base grew by 40% over the last two years and amounted to Rs. 813.3m (FY20: Rs. 643.2m; FY19: 578.8m) at end-FY21. The company after the period of two fiscal years has paid out dividends of Rs. 130m in FY21 while the payout ratio stood at 43%. The management going forward plans to continue paying out dividends.

Debt profile is a mix of short-term and long-term debt which is utilized to meet the exposure and working capital requirements. Total long-term debt stands at Rs. 375m (FY20: Rs. 343.0m) at end-FY21. Given higher utilization of running finance, leverage indicators have trended upwards and are on the higher side vis-à-vis peers.

Corporate governance and internal control framework are considered adequate
In line with best practices, room for improvement exist in terms of Board size and addition of independent directors. Management may consider segregating resources for the positions of CEO and Chairman of the Board in order to further improve governance quality. Adequate control functions are in place. Senior management team has largely remained stable with only turnover at the position of CFO. Financial statements are audited by RSM Avais Hyder Liaquat Nauman Chartered Accountants, which is classified in 'Category A' of SBP's Panel of Auditors.

FINANCIAL SUMMARY *(amounts in PKR millions)*				Appendix I
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**
Trade Debts	187.6	109.5	150.5	377.2
Deposits and Prepayments	249.1	404.5	522.1	1,114.0
Long Term Investments	174.4	153.0	153.0	153.0
Proprietary Book	165.6	116.7	100.4	226.5
Cash and Bank balances	627.8	575.9	1,047.6	1,574.4
Taxation	143.8	184.2	195.5	160.0
Total Assets	**1,757.9**	**1,721.2**	**2,359.2**	**3,798.7**
Trade and Other Payables	611.3	394.8	764.6	1,661.0
Long Term Loans	165.6	237.6	343.0	375.0
Short Term Loans – Secured	340.4	510.0	565.8	848.9
Total Liabilities	**1,117.3**	**1,142.4**	**1,716.1**	**2,985.4**
Paid-up Capital	66.0	66.0	66.0	66.0
Net Worth	**640.6**	**578.8**	**643.2**	**813.3**
INCOME STATEMENT				
Equity Brokerage Income	378.6	282.0	429.0	943.6
Corporate Advisory Income	26.3	41.2	20.0	30.0
Operating Revenue	**429.2**	**358.1**	**508.3**	**950.2**
Capital gains on investments	7.0	(2.4)	(17.2)	118.7
Other Income	37.7	63.0	123.5	117.5
Administrative Expenses	461.3	418.5	440.6	753.2
Finance Cost	50.1	48.3	98.0	84.2
Profit Before Tax	**(48.6)**	**(46.0)**	**85.1**	**372.3**
Profit After Tax	**(110.3)**	**(61.8)**	**64.4**	**300.1**
RATIO ANALYSIS				
Liquid Assets to Total Liabilities (%)	71.0	60.6	66.9	60.3
Liquid Assets to Total Assets (%)	45.1	40.2	48.7	47.4
Debt Leverage (x)	1.80	1.97	2.67	3.67
Gearing (x)	0.81	1.29	1.41	1.50
Efficiency (%)	94.5	97.3	68.6	69.5
ROAA (%)	(4.5)	(3.6)	3.2	9.7
ROAE (%)	(15.5)	(10.3)	10.5	41.2

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	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**	
	RATING TYPE: ENTITY					
	15-Oct-2021	A-	A-2	Stable	Reaffirmed	
	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.					
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.					
Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**			
	Mr. Ali Ahmed Noor	CFO & Company Secretary	Oct 13, 2021			