

# RATING REPORT

## BMA Capital Management Limited

### REPORT DATE:

17 October, 2022

### RATING ANALYST

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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	Oct 17, 2022		Oct 15, 2021	
Rating Action	Reaffirmed		Reaffirmed	

### 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):	
<i>Ganjbaksh Mauritius Limited – 49.0%</i>	
<i>Mr. Moazzam Mazhar Malik – 29.0%</i>	
<i>Mr. Mudassar Mazhar Malik – 14.0%</i>	
<i>Ms. Shehla Mazhar – 8.0%</i>	

### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020)

<https://s3-us-west-2.amazonaws.com/backupsqvis/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 Avasi 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 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 250 employees. Headquartered in Karachi, the brokerage house has a nation-wide branch network of total 21 branches while the management is not planning to expand its branch network in near term.

**Sector Update**

- After a historic performance of PSX in terms of volumes in FY21, overall volumes of PSX registered a drop of 44% during FY22. (Average daily volume dropped to 291mn in FY22 from 527mn in FY21)
- The decrease in trading volumes was mainly due to weak macro-economic environment including high inflation & interest rates and rupee depreciation along with political turmoil in the country.
- Accordingly, in tandem with trading volumes, brokerage revenues declined across the industry. This has dented the profitability of brokerage companies, some of which has slipped into net losses.
- In our view, PSX is expected to remain uncertain with lack of investor interest and subdued volumes during FY23, while brokerage companies are suggested to cut off their operating expenses and diversify their revenue base in order to keep their bottom line positive.
- In order to enhance the capital raising and provide facilitation to businesses, PSX has digitized the process of listing through an online portal called 'PRIDE' (Public Offerings Revolutionized through an Integrated and Digitized Experience). This online portal is designed to automate the listing process from end to end while the portal also provide delisting service to listed companies.
- PSX is innovating and launching new products with the aim to increase market capitalization and provide enhanced experience to market participants wherein PSX has launched its first dividend based index designed to track performance of top 20 dividend paying stock in order to provide ease and gather investor's interest.

**Table 1: Industry Trading Metrics – Regular**

	FY18	FY19	FY20	FY21	FY22
<b>Volume (In Billions)</b>	43	37	49	131	73
<b>Value (In PKR' Billions)</b>	2,027	1,549	1,789	4,781	2,406

**Rating Drivers**

**BMA managed to post operating profitability in FY22 amid low market volumes, however, capital loss on investment resulted in negative bottom line**

- In line with the industry trend, wherein brokerage volumes have contracted, brokerage revenue of BMA has also been dented. However, equity brokerage remained the major portion of BMAs revenue consisting around 68% of total revenue in FY22.
- All three segments of the brokerage commission (Equity, Money Market, and Forex) has witnessed a decline in FY22. Equity brokerage in FY22 down to 565m against 943m in FY21, registering a decline of 40% Y/Y. Overall, brokerage income dropped by 39% in FY22.
- Around 3/4<sup>th</sup> of the total brokerage income is earned from retail clientele while the remaining is generated through domestic institutions and foreign corporates. Going forward, brokerage income is expected to remain under pressure amid expectation of weak macro-economic conditions during the rating horizon.’
- Market share of BMA capital remained stable at 7% in FY22 (FY21: 7%. FY20: 7.6%). This is based only on a ready market volumes and also adjusted in-house trading. The Company has 20 branches spread across the country and has spurred a consistent growth of retail client base for past few years. BMA Capital’s client base stands at 17000+ as at Jun’22. Management is not planning to increase their number of branches during the rating horizon.

**Table 2: Revenue**

Diversification in Total Revenue	FY20	FY21	FY22	FY20	FY21	FY22
	PKR Mn.			%		
Equity Brokerage	429	944	565	61.9%	78.1%	68.3%
Money Market Brokerage	72	53	32	10.3%	4.4%	3.9%
Forex brokerage	43	38	29	6.2%	3.1%	3.5%
Commodity brokerage	3	0.6	0.2	0.4%	0.0%	0.0%
<b>Total Brokerage income</b>	<b>547</b>	<b>1,035</b>	<b>627</b>	<b>78.9%</b>	<b>85.6%</b>	<b>75.7%</b>
Advisory fees	20	31	46	2.9%	2.5%	5.6%
Dividend Income	0.7	7	15	0.1%	0.6%	1.9%
Other Income	126	136	139	18.2%	11.3%	16.8%
<b>Total</b>	<b>693</b>	<b>1,208</b>	<b>828</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

- Despite the fall in recurring revenue, Company has managed to sustain its cost to income ratio (Efficiency) at 70.6% in FY22 (FY21: 70.9%).

Table 3: P &amp; L Extract

P&L Extract	FY19	FY20	FY21	FY22
Operating revenue	367	521	966	625
Other operating revenue	-	-	99	105
Total operating income	367	521	1065	730
Administration and distribution expenses	(418)	(441)	(756)	(518)
Financial charges	(48)	(98)	(84)	(80)
Other operating charges	(0.1)	(2)	(7)	-
Total operating expenses	(467)	(540)	(848)	(598)
Operating profit	(99)	(19)	217	132
Other income	63	124	13	4
(Loss)/ Gain from quoted securities	(2)	(17)	119	(121)
Unrealized ( loss )/ (gain) on re-measurement	(7)	(2)	7	(46)
Dividend Income	-	-	7	15
Profit before tax	(46)	85	363	(16)
Taxation	(16)	(21)	(101)	(17)
Profit after tax	(62)	64	262	(33)

### Financial risk profile remains manageable

#### Liquidity Risk

- Liquid assets in relation to total liabilities increased to 83.7% as at Jun'22 (FY21: 60.3%) on account of lower debt drawdown and surge in short term investments.
- In view of the current ratio standing at 1.6x as at Jun'22 and considering the liquid assets, liquidity profile is considered adequate.

#### Credit Risk

- As at Jun'22, Trade receivables stands at Rs287m, consisting 12% of the total current assets.

#### Market Risk

- Company maintains a proprietary book, with short term investments to equity ratio standing at 51% as at Jun'22. The proprietary book ratio of the Company remained under the benchmark of the given ratings.

Table 4: Asset Mix

Figures in PKR' Millions	FY21	FY22
<b>Non-Current Assets</b>	<b>318</b>	<b>338</b>
- Long-term Investments	153	153
- Others	165	185
<b>Current Assets</b>	<b>3,480</b>	<b>2,435</b>
- Trade Debts	377	287
- Advances, Deposits, Prepayments etc.	1,115	235
- Proprietary Investments	227	377
- Cash & Bank Balances	1,574	1,323
- Taxation	160	188

- 94% of the short term investments are in listed companies, while remaining is directed towards investments in TFC and Sukuk.

**Capitalization indicators remained adequate**

- Equity of the company fell to 742m in FY22 from 813.3 in FY21, attributable to low profitability.
- Gearing and leverage ratios have reduced to 0.96x and 2.74x in FY22 from 1.5x and 3.67x in FY21. This improvement is due to an overall reduction in debt in FY22. Maintaining capitalization structure is one of the key factor from the ratings perspective.

**Table 5: Capitalization (In PKR' Millions, unless stated otherwise)**

	FY21	FY22
<b>Total Equity</b>	813	742
- <b>Paid-up Capital</b>	66	66
- <b>Accumulated Loss</b>	322	251
- <b>Surplus on Revaluation</b>	-	-
<b>Gearing (x)</b>	1.50	0.96
<b>Leverage (x)</b>	3.67	2.74

**Corporate governance and internal control framework remains adequate**

- At present, the board comprise of two members. However, increasing the board size and inclusion of independent director may enhance its governance levels. Moreover, segregating both the chairman and CEO may add further value to its governance structure.
- Audit committee is also present. However, the members are the same as in the board of directors, hence, improvement lies here as well.
- Internal control framework of the Company is considered adequate.
- The Company is audited by RSM Avais Hyder Liaquat Nauman Chartered Accountants, which is classified in 'Category A' of SBP's Panel of Auditors.

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>					
<b><u>BALANCE SHEET</u></b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
Trade Debts	188	110	151	377	287
Deposits and Prepayments	249	405	522	1,114	232
Long Term Investments	174	153	153	153	153
Proprietary Book	166	117	100	227	377
Cash and Bank balances	628	576	1,048	1,574	1,323
Taxation	144	184	196	160	188
<b>Total Assets</b>	<b>1,758</b>	<b>1,721</b>	<b>2,359</b>	<b>3,799</b>	<b>2,774</b>
Trade and Other Payables	611	395	765	1,661	1,313
Long Term Loans	166	238	343	375	470
Short Term Loans – Secured	340	510	566	849	249
<b>Total Liabilities</b>	<b>1,117</b>	<b>1,142</b>	<b>1,716</b>	<b>2,985</b>	<b>2,032</b>
Paid-up Capital	66	66	66	66	66
<b>Net Worth</b>	<b>641</b>	<b>579</b>	<b>643</b>	<b>813</b>	<b>742</b>
<b><u>INCOME STATEMENT</u></b>					
Equity Brokerage Income	379	282	429	944	565
Corporate Advisory Income	26	41	20	30	47
<b>Operating Revenue</b>	<b>429</b>	<b>358</b>	<b>508</b>	<b>950</b>	<b>612</b>
Capital gains on investments	7	(2)	(17)	119	(121)
Other Income	38	63	124	13	4
Administrative Expenses	461	419	441	756	518
Finance Cost	50	48	98	84	80
<b>Profit Before Tax</b>	<b>(49)</b>	<b>(46)</b>	<b>85</b>	<b>363</b>	<b>(16)</b>
<b>Profit After Tax</b>	<b>(110)</b>	<b>(62)</b>	<b>64</b>	<b>262</b>	<b>(33)</b>
<b><u>RATIO ANALYSIS</u></b>					
Liquid Assets to Total Liabilities (%)	71.0	60.6	66.9	60.3	83.7
Liquid Assets to Total Assets (%)	45.1	40.2	48.7	47.4	61.3
Debt Leverage (x)	1.80	1.97	2.67	3.67	2.74
Gearing (x)	0.81	1.29	1.41	1.5	0.96
Current Ratio (x)	1.34	1.53	1.46	1.33	1.56
Efficiency (%)	94.5	97.3	68.6	70.9	70.6
ROAA (%)	-4.5	-3.6	3.2	8.5	-1
ROAE (%)	-15.5	-10.3	10.5	36	-4.2

## ISSUE/ISSUER RATING SCALE &amp; 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](http://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](http://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](http://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.

<b>REGULATORY DISCLOSURES</b>		<b>Appendix III</b>			
<b>Name of Rated Entity</b>	BMA Capital Management Limited				
<b>Sector</b>	Brokerage				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	17-Oct-2022	A-	A-2	Stable	Reaffirmed
	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
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Mr. Ali Ahmed Noor	CFO & Company Secretary	Sept 21, 2022		