

RATING REPORT

BMA Capital Management Limited

REPORT DATE:

February 1, 2024

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 Action	Reaffirmed		Reaffirmed	
Rating Date	Feb 01, 2024		Oct 18, 2022	

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://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.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 20 branches while the management is not planning to expand its branch network in near term.

Sector Update

- During FY23, the brokerage sector faced significant challenges due to dwindling overall economic situation, a global decline in commodity prices, and political uncertainty. As a result, investor's confidence was greatly impacted.
- After witnessing a significant surge in trading volumes in FY21, volumes have depicted a downward trajectory wherein the trading volumes declined by around 44% in FY22, followed by a further decline of around 35% in FY23.
- Accordingly, in tandem with trading volumes, brokerage revenues declined across the industry. This has dented the profitability of brokerage companies, some of which have slipped into losses. Additionally, low volume of IPOs resulting in reduced underwriting activity during FY22 also contributed to loss of revenue, during the year only three IPOs occurred raising a total of Rs.1.3b which is considered low as compared to FY21 whereby eight IPOs were witnessed raising over Rs.20.0b.
- Recently PSX has launched a new technologically advanced trading platform, called Designated Time Schedule (DTS), replaced by the old trading platform (KATS/Karachi Automated Trading System) due to hardware and software mismatch. The new system is expected to improve security features to better safeguard investors' data and resolve complaints about data leakages and theft.
- In order to further facilitate brokerage houses and traders, PSX has planned to launch 15 new Trading Right Entitlement Certificates (TREC) licenses which is expected to bring ease for brokers fulfilling minimum financial requirements and to offer trade execution services to retail, institutional and foreign clients along with becoming underwriters for right shares issue and act as agents for share buybacks.

Table 1: Industry Trading Metrics – Regular

	FY19	FY20	FY21	FY22	FY23
Volume (In Billions)	37	49	131	73	47
Value (In PKR' Billions)	1,549	1,789	4,781	2,406	1,504

Rating Drivers

Following the losses reported by the Company in FY22 and FY23, the Company's profitability is expected to rebound in 1HFY24 given the bullish movement on the Pakistan Stock Exchange (PSX).

- The Company's brokerage revenue in FY23 has continued to shrink vis-à-vis previous year, with the brokerage revenue coming in at Rs.361m (FY22: Rs.629m), down by ~43% in tandem with the contraction in market volumes in the said period. All three segments of the brokerage namely Equity, Money Market, and Forex witnessed a drop in FY23.
- The retail clients of the Company continue to dominate the brokerage revenue mix, accounting for ~73% of the brokerage revenue followed by ~19% contribution from domestic institutions and ~7% from foreign institutions.
- The business risk of BMA remains elevated, with ~61% of the Company's revenue base drawn from its brokerage services.
- The Company's profitability profile remained impeded by the constraint on brokerage revenue, reporting continued losses in FY23. However, in 1HFY24, BMA managed to recover and post a profit of Rs.204.8m (FY23: (Rs.122.7m), FY22: (Rs.70.4m)) with higher brokerage revenue compared to SPLY. Moreover, support from margin financing income, realized and unrealized gains as well as other income also contributed to this recovery. The increase in brokerage revenue was driven by a resurgence in investor confidence following the stand-by arrangement reached with the IMF. Additionally, positive changes in macroeconomic indicators such as the decrease in the cut-off yields of debt securities with expectations of a decline in the policy rate, contributed to improved investor sentiments.
- Despite subdued market activity, the Company managed to sustain its market share, recorded at 8.5% in FY23 (FY22: 9.6%). The market share computed only includes ready market volumes also adjusted for in-house trading. Going forward, the Company's ability to sustain its market share will be an important ratings consideration.

Table 2: Revenue

Diversification in Total Revenue	FY21	FY22	FY23	FY21	FY22	FY23
	PKR Mn.			%		
Equity Brokerage	944	565	307	77.57%	68.07%	60.79%
Money Market Brokerage	53	32	27	4.35%	3.86%	5.35%
Forex brokerage	38	29	25	3.12%	3.49%	4.95%
Commodity brokerage	0.6	0.2	0	0.05%	0.02%	0.00%
Distribution Commission	9	3	3	0.74%	0.36%	0.59%
Total Brokerage income	1,043	630	361	85.70%	75.90%	71.49%
Advisory fees	31	46	14	2.55%	5.54%	2.77%
Dividend Income	7	15	8	0.58%	1.81%	1.58%
Other Income	136	139	122	11.18%	16.75%	24.16%
Total	1,217	830	505	100.00%	100.00%	100.00%

- BMA's efficiency levels worsened to 118.5% in FY23. However, it witnessed a rebound to clock in at 73.7% in 1HFY24, albeit remaining on the higher side.

Table 3: P & L Extract

P&L Extract	FY20	FY21	FY22	FY23	HFY24
Operating revenue	521	966	620	344	345
Administration and distribution expenses	(441)	(756)	(605)	(551)	(321)

Financial charges	(98)	(84)	(80)	(77)	(39)
Other operating charges	(2)	(7)	-	(2)	-
Total operating expenses	(540)	(848)	(685)	(631)	(360)
Operating profit	(19)	217	(65)	(341)	(15)
Other income	124	111	109	122	90
(Loss)/ Gain from quoted securities	(17)	119	(26)	84	76
Unrealized (loss)/ (gain) on re-measurement	(2)	7	(46)	(34)	58
Dividend Income	-	7	16	8	-
Profit before tax	85	363	(12)	(107)	210
Taxation	(21)	(101)	(58)	(16)	(5)
Profit after tax	64	262	(70)	(123)	205

Financial risk profile remains Adequate

Liquidity Risk

- As at Jun'23, the Company's liquidity profile depicted deterioration, with liquid assets in relation to total liabilities decreasing to 28.5% (Jun'22: 83.6%). However, the same recovered to 50.6% as at Dec'23, albeit remaining lower than Jun'22.
- Moreover, Current ratio of the Company remains higher, reporting at 1.56x as at Dec'23 (Jun'23, 1.48x, Jun'22: 1.52x), thereby providing support to its liquidity profile.

Credit Risk

- Trade Receivables of the Company are reported at Rs.343.9m as at Dec'23 (Jun'23: Rs.232.1, Jun'22: Rs.281.1m) constituting around ~15% of the total current assets.

Market Risk

- Around 95% of the short term investments are booked in equity securities followed by investments in TFC and Sukuk.
- Market risk of the Company is considered moderate, with short term investments to equity at 49.8% as at Dec'23 (Jun'23: 59.9%, Jun'22: 53.6%).

Figures in PKR' Millions	FY22	FY23	HFY24
Non-Current Assets	342	481	498
- Long-term Investments	153	153	153
- Others	189	328	345
Current Assets	2,396	1,569	2,369
- Trade Debts	281	232	344
- Advances, Deposits, Prepayments etc.	235	739	815
- Proprietary Investments	377	349	392
- Cash & Bank Balances	1,323	29	583
- Taxation	155	178	192

Capitalization indicators remained adequate

- During FY23, Equity of the Company, excluding the revaluation surplus, declined to Rs.582.1m as a result of losses during the period. However, owing to higher profitability, the equity base recovered to Rs.787m in HFY24. The equity base quoted is exclusive of a gain in the revaluation surplus.

Table 6: Capitalization (In PKR' Millions, unless stated otherwise)

	FY22	FY23	HFY24
Total Equity (Adjusted)	705	582	787
- Paid-up Capital	66	66	66
- Accumulated Profit	214	91	296
- Surplus on Revaluation	-	154	154
Gearing (x)	1.01	0.80	0.51
Leverage (x)	2.88	2.26	2.45

- The increase in the equity base coupled with reduction in the short-term debt drawdown translated into improvement in the gearing ratio of the Company. However, the leverage ratio saw further deterioration on account of buildup in payables.

Corporate governance is considered adequate.

- At present, the Company's board comprises of three members. However, increasing the board size along with independent representation may enhance its governance framework.
- The Company has four board committees namely audit, HR, Investment and Risk Management committee. However, repetition of members is observed across the board, hence, improvement is warranted in the same.
- The Company is audited by RSM Avais Hyder Liaquat Nauman Chartered Accountants, which is classified under 'Category A' of SBP's Panel of Auditors.

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>					
BALANCE SHEET	FY20	FY21	FY22	FY23	HFY'24*
Trade Debts	151	377	281	232	344
Deposits and Prepayments	522	1,114	232	735	798
Long Term Investments	153	153	153	153	153
Proprietary Book	100	227	377	349	392
Cash and Bank balances	1,048	1,574	1,323	29	582
Taxation	196	160	155	178	192
Total Assets	2,359	3,799	2,738	2,050	3,082
Trade and Other Payables	765	1,661	1,318	845	1,519
Long Term Loans	343	375	466	256	404
Short Term Loans – Secured	566	849	249	210	-
Total Liabilities	1,716	2,985	2,033	1,314	1,926
Paid-up Capital	66	66	66	66	66
Net Worth (Excluding revaluation surplus)	643	775	705	582	787
INCOME STATEMENT					
Equity Brokerage Income	429	944	565	306	N/A
Corporate Advisory Income	20	31	47	14	N/A
Operating Revenue	508	950	599	332	333
Capital gains on investments	(17)	119	(26)	84	76
Other Income	124	111	109	122	90
Administrative Expenses	441	756	605	551	321
Finance Cost	98	84	80	78	39
Profit Before Tax	85	363	(12)	(107)	210
Profit After Tax	64	262	(70)	(123)	205
RATIO ANALYSIS					
Liquid Assets to Total Liabilities (%)	66.9	60.3	83.6	28.7	50.6
Liquid Assets to Total Assets (%)	48.7	47.4	62.1	18.4	34.0
Debt Leverage (x)	2.67	3.85	2.88	2.26	2.45
Gearing (x)	1.41	1.58	1.01	0.80	0.51
Efficiency (%)	68.6	70.8	82.9	118.5	73.7
ROAA (%)	3.2	8.5	-2.2	-5.1	16.4
ROAE (%)	10.5	36	-9.5	-19.1	58.6

*Unaudited Accounts

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
	<u>RATING TYPE: ENTITY</u>				
	1-Feb-2024	A-	A-2	Stable	Reaffirmed
	18-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
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.				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Ali Ahmed Noor	Chief Financial Officer	15-Jan-2024		