

## RATING REPORT

## BIPL Securities Limited

**REPORT DATE:**

April 13, 2020

**RATING ANALYSTS:**

Muhammad Ibad

[ibad.deshmukh@vis.com.pk](mailto:ibad.deshmukh@vis.com.pk)

RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A-	A-2	A-	A-2
<b>Rating Outlook</b>	Rating Watch-Developing		Negative	
<b>Rating Date</b>	April 13, 2020		February 19, 2019	

## COMPANY INFORMATION

<b>Incorporated in 2000</b>	<b>External auditors:</b> RSM Avais Hyder Liaquat Nauman Chartered Accountants
<b>Public Listed Company</b>	<b>Chairman of the Board:</b> Mr. Kamal Uddin Tipu
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Abdul Aziz Anis, CFA
M/s. BankIslami Pakistan Limited – 77.12%	
Mrs. Noor Jehan Bano – 6.54%	
Mr. Mohammad Aslam Motiwala – 7.45%	

## APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017)

<http://vis.com.pk/docs/Securities%20Firms%20201706.pdf>

## BIPL Securities Limited

### OVERVIEW OF THE INSTITUTION

### RATING RATIONALE

BIPL Securities Limited (formerly KASB Securities) was incorporated in 2000 as a public limited company under the Companies Ordinance 1984 and started its broking operations in January 2003. The company holds a Trading Right Entitlement Certificate (TREC) of Pakistan Stock Exchange (PSX) and is a member of Pakistan Mercantile Exchange (PMEX).

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

#### Profile of Chairman

Mr. Kamal Uddin Tipu is a PhD in International Relations & Politics and a Masters in Conflict Transformation from Eastern Mennonite University Harrisonburg VA USA and MSc in Civil Engineering having over 28 years of experience. His experience includes member of National Counter Terrorism Authority (NACTA), Acting Chairman PEMRA, Police planning advisor at UNOAU, Deputy Inspector general of police, Islamabad,

Incorporated in 2000, BIPL Securities Limited (BIPLS), formerly known as KASB Securities, is in the business of broking services for more than 25 years. BIPLS caters primarily to equity broking services to both retail and institutional clients with presence in commodity, fixed income and forex segment. Additionally, economic research and corporate financial advisory are other valued added services offered by the company.

The company's long term investments form the largest proportion of total asset base and comprise strategic investment mainly in Al Jomaih Power Limited (AJPLC). Total shareholding of BIPLS in AJPLC is 1.55% and the investment amounts to Rs. 297.0m.

#### Update Regarding Potential Acquisition of BIPLS

- On February 28, 2020, BIPLS received a notice of public announcement of intention from AKD Securities Limited to acquire 77.12% voting shares of the company.
- On February 21, 2020, BIPLS received a notice of public announcement of intention from JS Global Capital Limited to acquire 77.12% voting shares of the company.
- On February 6, 2020, BIPLS received a notice of public announcement of intention from Next Capital Limited to acquire 77.12% voting shares of the company.

#### Key Rating Drivers

**Brokerage industry continues to be affected by economic cycles. Declining trend in trading volumes over the last two 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 two 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. 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. Going forward, focus of brokerage companies remains on cost rationalization, strengthening retail client base and focus on higher margin business. Nevertheless, brokerage sector outlook is expected to remain challenging; impact of recently revised brokerage commission structure for all security brokers and recent uptick in market volumes on BIPLS' profitability would be tracked by VIS.

**Strong retail client base remains a competitive edge and provides some sustainability to equity brokerage revenue; however, diversification in revenue stream is limited.**

BIPLS has a strong retail client base of over 15,000 clients, accounting for majority of the equity brokerage revenue. Retail clientele, in addition to online services, is catered through a branch network of 11 branches spread nationwide. In the current environment, management plans to focus on expanding retail client base through online marketing activities while branch expansion has been put on hold.

The company provides brokerage services through ready, futures and margin trading. Going forward, management intends to diversify revenue streams. Moreover, in order to activate sizeable retail client base, a call center has also been tasked to enhance brokerage volumes by tapping inactive clients. Moreover, existing customers will be converted to premium customers through offering value added services.

Foreign brokerage income of BIPL has witnessed a significant decline over time due to limited foreign

Sector Commander and Director Planning & Coordination National Highways & Motorway Police, Islamabad.

#### **Profile of CEO**

Mr. Abdul Aziz is an investment management and capital markets specialist with 24 years of experience. He has previously worked as Managing Director Investment Strategist in Asset Management at NCB Capital, Saudi Arabia and as a founding Chief Executive Officer of Alfalah GHP Investment Management Ltd. He also served as the CEO of Elixir Securities. He is a Chartered Financial Analyst (CFA) from the CFA Institute USA and holds a Master degree in Business Administration (MBA Finance) from the Institute of Business Administration (IBA), Karachi.

client base and discontinuation of brokerage arrangement with Bank of America Merrill Lynch (BAML); management does not plan to focus on this area in the medium term.

#### **With higher revenue and rationalization in expense base, operating losses have reduced. Cost to income ratio has remained persistently high.**

Brokerage income (primarily retail brokerage) represents major proportion of company's revenues. Given the significant reliance on brokerage income, earning profile of the company remains largely dependent on market volumes. On the costs front, stringent cost control measures and rationalization of headcount in back office has facilitated in the reduction of operational expenses. The company's cost-income ratio improved from 127.2% in 2018 to 110.6% in 2019 as increase in operating revenues was higher than operating costs. During 2019, the company reported a loss after tax of Rs. 14.9m (2018: Rs. 41.5m). Going forward, financial performance would remain sensitive to the vagaries of local stock market and is subject to risks associated with it.

#### **Capitalization indicators supported by low leveraged capital structure and adequate liquidity profile**

Given low market volumes and excess availability of cash, liquidity profile of the company has remained adequate. Total debt profile of the company is long term in nature. The company has Rs. 150m of long term diminishing mushakarah facility acquired from Bank Islami Pakistan Limited (BIPL) which is repayable in the form of a bullet payment in December 2023. Moreover, leverage indicators of the company remain at manageable levels. Net capital balance remains well in excess of regulatory requirement.

#### **Corporate governance structure**

Since last review, senior management team at BIPLS has depicted stability. Board level corporate governance of the company is considered sound with requisite committees and independents directors. Board of Directors (BoD) includes members with extensive experience in the financial services sector and the management team comprises seasoned professionals.

FINANCIAL SUMMARY (amounts in PKR millions)				Appendix I
<b><u>BALANCE SHEET</u></b>	<b>31-Dec-19</b>	<b>30-Sept-19</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>
Trade Debts	N/A	143.9	121.9	117.3
Long Term Investments	N/A	311.3	488.2	512.2
Cash and Bank balances	N/A	384.9	546.1	497.0
Total Assets	N/A	1,531.1	1,825.9	1,915.9
Trade and Other Payables	N/A	673.1	700.2	839.4
Long Term Loans	N/A	150.0	150.0	150.0
Short Term Loans - Secured	N/A	-	100	-
Paid up capital	1,000	1,000	1,000	1,000
Net Worth	N/A	686.9	874.3	925.0
<b><u>INCOME STATEMENT</u></b>	<b>31-Dec-19</b>	<b>30-Sept-19</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>
Brokerage Income	213.4	128.5	183.9	230.5
Advisory Income	0.0	0.0	0.0	1.4
Administrative Expenses	311.8	228.4	299.0	358.1
Finance Costs	26.5	19.4	15.4	14.2
Loss Before Tax	(14.9)	(42.4)	(41.5)	82.6
Loss After Tax	(11.9)	(28.4)	(26.9)	38.0
<b><u>RATIO ANALYSIS</u></b>	<b>31-Dec-19</b>	<b>30-Sept-19</b>	<b>31-Dec-18</b>	<b>31-Dec-17</b>
Commission Income / Turnover (Paisa/Share)	N/A	N/A	N/A	5.4
Current Ratio	N/A	1.5	1.5	1.55
Liquid Assets to Total Liabilities	N/A	51.1%	57.4%	65.5%
Liquid Assets to Total Assets	N/A	28.2%	29.9%	33.9%
Debt Leverage	N/A	1.2	1.1	1.65
Gearing	N/A	0.2	0.3	0.25
Efficiency (%)	110.6%	188.7%	127.2%	126.6%
ROAA (%)	N/A	-1.6%	-1.4%	1.7%
ROAE (%)	N/A	-4.9%	-2.9%	3.6%

## ISSUE/ISSUER RATING SCALE &amp; DEFINITIONS

## Appendix II


**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.

REGULATORY DISCLOSURES					Appendix III
<b>Name of Rated Entity</b>	BIPL Securities 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>RATING TYPE: ENTITY</b>				
	13-April-20	A-	A-2	Rating Watch-Developing	Maintained
	19-February-19 09-Oct-17	A- A-	A-2 A-2	Negative Stable	Maintained 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.				
<b>Disclaimer</b>	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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
<b>Due Diligence Meetings Conducted</b>		<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Mr. Abdul Aziz Anis	CEO	12-Mar-2020	
	2	Mr. Arsalan Farooq	Company Secretary	12-Mar-2020	