

RATING REPORT

BIPL Securities Limited

REPORT DATE:

August 27, 2021

RATING ANALYST:

Muhammad Tabish

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Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Rating Watch-Developing		Rating Watch-Developing	
Rating Date	August 27, 2021		April 13, 2020	

COMPANY INFORMATION

Incorporated in 2000	External auditors: RSM Avas Hyder Liaquat Nauman Chartered Accountants
Public Listed Company	Chairman of the Board: Mr. Kamal Uddin Tipu
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Abdul Aziz Anis, CFA
M/s. AKD Securities ~ 77.12%	
Mrs. Noor Jehan Bano ~ 6.55%	
Mr. Mohammad Aslam Motiwala ~ 9.35%	

APPLICABLE METHODOLOGY(IES)

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

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/SecuritiesFirm202007.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 Awaiz 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

BIPL Securities Limited (BIPLS) has an operational track record of more than 25 years and is engaged in the provision of equity brokerage services with presence in commodity, fixed income and forex segment. The company caters to domestic retail, high net worth individuals and institutional clients. Alongside, economic research and corporate financial advisory are other valued added services offered by the company. At present, total staff strength stands at 150+ employees. Headquartered in Karachi, the brokerage house has a nation-wide branch network of total 12 branches.

Acquired by AKD Securities in June 2021. Outlook remains on the 'Rating Watch-Developing'.

On June 28, 2021, BIPLS formally become a subsidiary of AKD Securities Ltd as the previous sponsor, BankIslami Pakistan (BIPL) sold its entire stake constituting 77.12% of the share capital to AKD Securities. The company is currently going through the process of merging of operations.

Key Rating Drivers**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) 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

PEMRA, Police planning advisor at UNOAU, Deputy Inspector general of police, Islamabad, 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.

(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.

Strong retail clientele and extensive branch network remains a competitive strength while sustaining overall market share is a key challenge in highly competitive environment.

BIPLS's market share (in volumetric terms) has largely remained stagnant over the years at an average of around 5%. Nonetheless, strong retail client base of over 17K+ individuals (growing by ~13.3% vis-à-vis previous year) along with extensive branch network continue to provide comparative advantages and some sustainability to equity brokerage revenues. Moreover, during the past two years sizeable new online clients were taken onboard on account of management's enhanced focus on growing retail network by leveraging digital platforms to attract online clientele along with the pandemic led shift in investors' interest towards online trading. Going forward, the management plans to provide new product offers to online customers.

Uptick in industry trading volumes has improved the brokerage revenue, however, lack of diversification in revenues remains a rating constraint.

Akin to the industry, recurring revenues depicted a strong growth of ~83% during 2020 and the same growth trend has continued in the ongoing year. Almost 90% revenue is generated from equity brokerage activities and hence high reliance on the same remains a business risk. Other revenue sources include subscription research income, financial advisory fee, money market and forex commission, custody service, income from bank deposits and capital gain on sale of investments. Retail clientele forms the major proportion (~90%) of brokerage income while the remaining is shared by domestic institutional business. Furthermore, top 10 clients constitute around one-fifth of brokerage income which indicates moderate to high concentration risk. Going forward, granularity in retail base and diversification in income stream is warranted from a rating perspective.

On the cost front, stringent cost control measures in the previous years facilitated in limiting the growth of operating overheads while financial charges have remained around prior year's level. As a result, cost-income ratio has depicted a notable improvement, albeit it remains aligned with the peers (1Q'21: 53%; 2020: 70%; 2019: 102%). Post two consecutive years of net losses, bottom-line has turned positive reporting at Rs. 60.4m (2020: 94.0m; loss after tax of Rs. 11.9m and Rs. 27.0m in 2019 and 2018, respectively) in 1Q'21.

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

The company maintains a conservative asset allocation strategy with two-fifth 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, trade debts have increased on a timeline basis, however, its ageing is indicative of low credit risk. During 1Q'21, BIPLS did partake in ready market operations, albeit these remain limited to 5% of asset base and 15% in relation to equity.

Capitalization level have depicted some improvement; leverage indicators remain at manageable levels.

On the back of improved profitability, equity base grew by 12% over the last fifteen months

and amounted to Rs. 843.9m (2020: Rs. 782.2m; 2019: 753.4m) in 1Q'21. The company has not paid any cash dividend over the years due to insufficient profits. Debt profile is a mix of short-term and long-term debt which is utilized to meet the exposure and working capital requirements. Long-term debt stands at Rs. 150m and is repayable as a bullet payment in Dec'23. Moreover, leverage indicators of the company remain at manageable levels.

Corporate governance structure

During the period under review, with the change in sponsors of the company 4 non-executive directors were appointed to replace the outgoing directors. Senior management team has largely remained stable. Board level corporate governance of the company is considered sound with requisite committees and independent directors.

FINANCIAL SUMMARY (amounts in PKR millions)				Appendix I
BALANCE SHEET	31-Dec-18	31-Dec-19	31-Dec-20	31-Mar-21
Trade Debts	121.9	150.8	362.8	112.5
Long Term Investments	488.2	361.4	296.0	297.2
Cash and Bank balances	546.1	238.8	909.2	993.1
Total Assets	1,825.9	1,896.0	2,680.7	2,325.7
Trade and Other Payables	700.2	974.8	1,695.1	1,319.9
Long Term Loans	150.0	150.0	150.0	150.0
Short Term Loans - Secured	100.0	-	40.0	-
Total Liabilities	951.7	1,142.6	1,898.5	1,481.8
Paid up capital	1,000.0	1,000.0	1,000.0	1,000.0
Net Worth	874.3	753.4	782.2	843.9
INCOME STATEMENT	31-Dec-18	31-Dec-19	31-Dec-20	31-Mar-21
Brokerage Income	207.8	237.0	434.8	158.2
Administrative Expenses	(299.0)	(311.8)	(344.1)	(101.8)
Finance Costs	(15.4)	(26.5)	(25.4)	(6.7)
Capital Gain/(Loss)	14.5	11.4	11.1	4.2
Other Income	61.1	94.3	102.4	32.0
Profit/(Loss) Before Tax	(41.5)	(14.9)	138.0	86.4
Profit/(Loss) After Tax	(27.0)	(11.9)	94.0	60.4
RATIO ANALYSIS				
Current Ratio	1.50	1.41	1.30	1.45
Liquid Assets to Total Liabilities	57.4%	20.9%	47.9%	75.7%
Liquid Assets to Total Assets	29.9%	12.6%	33.9%	48.2%
Debt Leverage	1.66	1.87	2.70	1.94
Gearing	0.26	0.25	0.21	0.20
Efficiency (%)	121.0%	101.9%	70.1%	53.4%
ROAA (%)	-1.4%	-0.6%	4.1%	2.4%
ROAE (%)	-2.9%	-1.5%	12.2%	7.4%

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	BIPL Securities 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				
	27-Aug-21	A-	A-2	Rating Watch-Developing	Maintained
	13-Apr-20	A-	A-2	Rating Watch-Developing	Maintained
	19-Feb-19	A-	A-2	Negative	Maintained
	09-Oct-17	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	S.no	Name	Designation	Date	
	1	Mr. Abdul Aziz Anis	CEO	August 13, 2021	