

## RATING REPORT

## AKD Securities Limited

**REPORT DATE:**

June 21, 2024

**RATING ANALYSTS:**

Sara Ahmed

[Sara.ahmed@vis.com.pk](mailto:Sara.ahmed@vis.com.pk)

Salman Saba

[salman.saba@vis.com.pk](mailto:salman.saba@vis.com.pk)

## RATING DETAILS

	Latest Rating		Previous Rating	
	Long -term	Short -term	Long -term	Short -term
<b>Rating Category</b>				
<b>Entity</b>	AA-	A-1	AA-	A-1
<b>Rating Outlook</b>	Stable		Stable	
<b>Rating Date</b>	June 21, 2024		December 07, 2022	
<b>Rating Action</b>	Reaffirmed		Upgrade	

## COMPANY INFORMATION

<b>Incorporated on 2000</b>	<b>External auditors:</b> RSM Avais Hyder Liaquat Nauman Chartered Accountants
<b>Public Limited Company-Listed</b>	<b>Chairperson of the Board:</b> Ms. Hina Dhedhi Junaid
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Muhammad Farid Alam
- AKD Group Holdings (Pvt.) Limited: 95.87%	

## APPLICABLE METHODOLOGY (IES)

VIS Entity Rating Criteria Methodology – Securities Firms Ratings

<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>

**AKD Securities Limited**

**OVERVIEW OF THE INSTITUTION**

AKD Securities Limited was incorporated in 2000 as a public limited company under the Companies Ordinance 1984 and started its broking operations in January 2003. On 03 June 2022, the entire undertaking of AKD Securities Limited (AKDSL), a public unlisted company in Pakistan was merged with and into the BIPL Securities Limited. Upon sanction of the Merger Scheme, the name of the Company has been changed to AKD Securities Limited. The Company, through direct and beneficial ownership is owned by AKD Group Holdings (Pvt) Limited.

**Profile of Chairperson**

Mrs. Hina Junaid has been a part of AKDSL since 2007 and is accredited with the establishment of AKD Commodities (Pvt.) Limited. Mrs. Junaid has extensive experience in client portfolio management, equity sales and business development, focusing primarily on domestic institutions and HNWTs. Mrs. Junaid works with charitable cause and social welfare projects for women empowerment, children's education, medical research and poverty alleviation.

**Profile of CEO**

Mr. Muhammad Farid Alam has been CEO of AKDSL for the past 10 years. He has over 20 years' of experience in the finance sector having begun his career with Crescent Investment Bank Limited which was the first investment bank incorporated in Pakistan. He is a fellow member of the Institute of Chartered Accountants of Pakistan (ICAP).

**RATING RATIONALE**

Listed on the Stock Exchange, AKD Securities Limited is licensed to operate as securities broker, consultant to the issue, and underwriter from the Securities Exchange Commission of Pakistan and holds a Trading Right Entitlement Certificate (TREC) of Pakistan Stock Exchange Limited and Membership card of Pakistan Mercantile Exchange Limited. The principal activities of the Company are brokerage of shares and/or commodities/ money market / forex trading, financial research, book building, underwriting, investments in securities/commodities, corporate advisory and consultancy services.

The Company was named AKD Securities Limited in 2022 after the merger of AKD Securities Limited (AKDSL), with and into BIPL Securities Limited, a listed brokerage company.

**Industry Overview**

At the beginning of 2023, Pakistan faced severe challenges, including the risk of debt default, high inflation, record-high government bill yields, and political instability. Consequently, the KSE-100 index remained largely stagnant, only rising slightly from 40,420 to 41,452.69 by late June.

The situation improved dramatically after June 30, when Pakistan secured a \$3 billion, nine-month Stand-By Arrangement (SBA) with the IMF. This agreement averted the risk of default and bolstered investor confidence, driving the KSE-100 to 62,451.04 by year-end, a 51% increase. The smooth transition to an interim government in August further reduced political uncertainty. Measures taken by the interim government, such as structural reforms by the State Bank of Pakistan and actions against currency smugglers, stabilized the rupee and enhanced investor confidence. Notably, the energy sector, buoyed by gas price hikes, and improved performance in the banking sector, contributed significantly to the market's rise.

**Table 1: Industry Trading Metrics – KSE 100 All share**

	FY19	FY20	FY21	FY22	FY23	9MFY24
<b>Volume (In Billions)</b>	37	49	131	73	47	84
<b>Value (In PKR' Billions)</b>	1,549	1,789	4,781	2,406	1,504	2,713

Average daily volumes in the current year are touching 236 million shares compared to 90.6 million shares in the corresponding period last year. Looking ahead, given expectations of interest rate cut in the upcoming monetary policy, we expect volumes to pick up further.

**Key Rating Drivers:**

**Ratings incorporate high business risk of the brokerage sector**

Brokerage sector performance remains highly correlated with the macroeconomic indicators in the country. The inherent volatility in the sector together with fragmented industry structure, intense competition and strong regulatory oversight characterizes the industry with high business risk.

**Ratings incorporate strong market share**

A large client base including retail and institutional clients provides a competitive advantage to AKDSL. During the year, the Company increased the number of clients in each category, 7% in retail, 3% in institutional and 2% in High Net worth individuals with total active clients of the house close to ~48,000. Market share of the Company at the end of March 2024 was recorded at 14%, with plans to increase the same to 18%. A large composition of retail clients is also reflective of enhanced market presence.

**Technology enhancements**

With a focus on technology advancements, the Company has invested in updating their IT platform and have launched their new online application for their clients. The focus has been on enhancing client experiences through digital platforms. We expect that these upgrades will assist in expanding client base and client servicing procedures.

**Revenue diversification depicted improvement on a timeline basis**

Over time, revenue diversification has improved with brokerage revenues accounting for 47% of total recurring revenues compared to 59% in the previous year. While corporate advisory income declined in FY23, we expect the same to pick up in FY24 and FY25 given the mandates in pipeline. Higher dividend income and profits earned on cash balances due to high interest rates provided support to the profitability profile.

Operating Revenues	FY22	FY23	9MFY24
<b>Brokerage Income</b>	59.7%	47.9%	51.0%
<b>Advisory/Underwriting</b>	19.9%	3.2%	0.4%
<b>Dividend Income</b>	4.5%	16.2%	17.2%
<b>Others</b>	16.1%	32.7%	31.4%

**Propriety book exposure to market risk**

While the propriety book remains exposed to market risk, a majority (49%) of the investment is vested in one stock, Javedan Corporation, which is a strategic holding

of the Company. While this partly mitigates the market risk, it exposes the Company to concentration risk and impacts the liquidity profile.

### Liquidity metrics remain adequate

Liquidity metrics are considered adequate. Adjusting for strategic holdings, liquidity coverage stands around 40%. The Company has channeled a sizeable liquidity into purchase of real estate assets, which houses their corporate offices. Improvement in liquidity metrics going forward will remain important.

### Corporate Governance framework

Being a listed company, improved Corporate Governance framework and enhanced disclosures provides comfort to ratings. However, management changes at several key positions were noted with some positions still vacant.

Financial Summary	(PKR in millions)		Appendix I
<b><u>BALANCE SHEET</u></b>	<b>FY22</b>	<b>FY23</b>	<b>9MFY24</b>
PPE & Lease Assets	327.7	1,829.7	2,037.9
Intangible Assets	3,155.2	3,153.2	3,157.0
Trade Debts	327.1	230.2	290.2
Long Term Investments	201.9	641.1	625.7
Short Term Investments	3,533.9	2,318.9	2,279.5
Cash and Bank balances	1,140.4	876.8	631.3
Other Assets	2,477.0	1,885.0	4,386.3
<b>Total Assets</b>	<b>11,163.2</b>	<b>10,934.8</b>	<b>13,407.9</b>
Trade & Other Payables	2,633.7	2,048.7	3,575.8
LT Borrowings (Including Fin. Lease)	203.0	543.3	162.7
Short Term running finance	865.0	150.0	363.5
Other Liabilities	154.5	38.6	230.7
<b>Total Liabilities</b>	<b>3,856.1</b>	<b>2,780.7</b>	<b>4,332.8</b>
Paid-up Capital	1,000.0	5,578.3	5,578.3
Adjusted Equity	7,323.5	7,730.3	8,666.7
<b><u>INCOME STATEMENT</u></b>	<b>FY22</b>	<b>FY23</b>	<b>9MFY24</b>
Total Revenue	1,075.5	1,500.8	1,889.6
Administrative Expenses	999.0	902.8	598.0
Finance Costs	105.2	(116.7)	(117.7)

Profit Before Tax	(81.8)	359.6	1,252.3
Profit After Tax	(323.6)	407.2	936.5
<b>RATIO ANALYSIS</b>			
	<b>FY22</b>	<b>FY23</b>	<b>9MFY24</b>
Liquid Assets to Total Liabilities (%)	121.22%	114.93%	67.18%
Liquid Assets to Total Assets (%)	41.87%	29.23%	21.71%
Debt Leverage (x)	0.53	0.36	0.50
Gearing (x)	0.15	0.09	0.06
Efficiency (%)	46.67%	69.70%	36.80%
ROAA (%)	-4.70%	3.69%	7.69%
ROAE (%)	-7.95%	5.41%	11.42%

<b>REGULATORY DISCLOSURES</b>		<b>Appendix II</b>				
<b>Name of Rated Entity</b>	AKD 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>					
	06/21/2024	AA-	A-1	Stable	Reaffirmed	
	12/07/2022	AA-	A-1	Stable	Upgrade	
	11/22/2021	A+	A-1	Rating Watch-Positive	Maintained	
	11/30/2020	A+	A-1	Stable	Upgrade	
	9/27/2019	A	A-2	Stable	Reaffirmed	
	1/19/2018	A	A-2	Stable	Reaffirmed	
	8/2/2016	A	A-2	Stable	Downgrade	
	1/6/2015	A+	A-2	Rating Watch-Negative	Maintained	
	10/9/2015	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.					
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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>
	Mudassir Ijaz	Company Secretary	27 <sup>th</sup> May, 2024
	Zafar Ahmed Khan	CFO	
	Minhal Shahid	Investment Banking	