

# BROKER FIDUCIARY RATING REPORT

## AKD Securities Limited

**REPORT DATE:**

09 February, 2023

**RATING ANALYSTS:**

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### RATING DETAILS

**Broker Fiduciary Rating**

**BFR2++**

*Strong Fiduciary Standards*

**Rating Rationale**

The rating signifies strong regulatory compliance, client ownership and governance, management and client services and business and financial sustainability while internal controls are sound.

**Rating Date**

09 February, 2023

### COMPANY INFORMATION

**Incorporated in 2007**

**External auditors:** RSM Avasi Hyder Liaquat Nauman  
Chartered Accountants

**Public Limited Company-Listed**

**Chief Executive Officer:** Ms. Hina Dhedhi Junaid

**Key Shareholders (with stake 5% or more):**

**Chairman of the Board:** Mr. Muhammad Farid Alam

*AKD Group Holdings (Pvt.) Limited ~ 95.90%*

### APPLICABLE METHODOLOGY

**Applicable Rating Criteria: Broker Fiduciary Ratings 2021**

<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

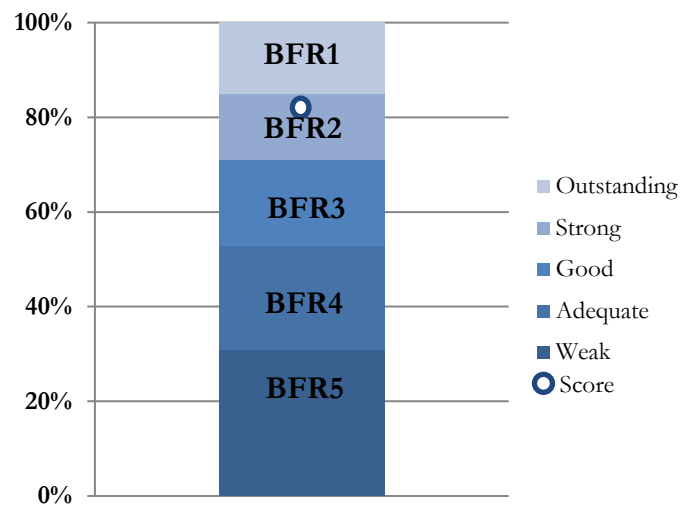
## AKD Securities Limited

### CORPORATE PROFILE

Listed on the Stock Exchange, AKD Securities Limited (formerly BIPL 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.

On 03 June 2022, under a Scheme of Arrangement approved by the High Court of Sindh, effective July 1, 2022, the entire undertaking of AKD Securities Limited (AKDSL), a public unlisted company in Pakistan with AKDSL was merged with and into the BIPL Securities Limited, a listed brokerage Company, and the entire business of AKDSL including its properties, assets, liabilities and rights and obligations vested into the Company. That upon sanction of the Merger Scheme, the name of the Company has been changed to AKD Securities Limited on 22 July 2022.

### OVERALL GRADING



AKDSL is registered with Securities & Exchange Commission of Pakistan (SECP) and holds a Trading and Self-Clearing (TSC) license and Trading Rights Entitlement Certificate (TREC) granted by Pakistan Stock Exchange Limited (PSX). Moreover, the company also holds underwriting and corporate advisory licenses. External auditors of the company are RSM Avasi Hyder Liaquat Nauman Chartered Accountants. External auditors from Category 'A' of State Bank of Pakistan's list of auditors.

### Business & Financial Sustainability Indicators

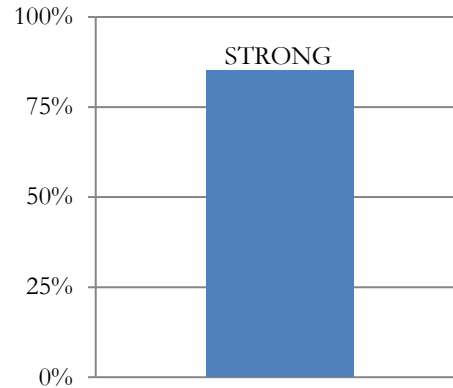
	FY22	1QFY23
Adjusted Size of Net Worth (Rs. In Millions)	7,324	8,016
Adjusted Gearing x (Total interest bearing debt/ Total Equity)	0.15x	0.09x
Adjusted Leverage x (Total liabilities/ Total equity)	0.53x	0.41x
Liquid Assets/ Total Liabilities (x)	1.21x	1.38x
Short term Investments/ Total Adjusted Equity (%)	48%	54%

Rating Indicators

**Ownership & Governance**

- At present, board size has improved to 7 members comprising of independent representation. Inclusion of new members bodes well for the Company’s governance framework.
- Governance structure continues to be supported through functioning of Board committees including Audit, Investment and HR.
- Disclosure levels are considered strong. Change of auditor along with inclusion of CEO’s statement in the Company’s annual financial statements has been noted positively.

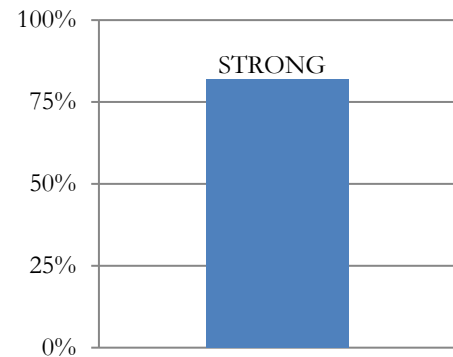
**Ownership & Governance**



**Business & Financial Sustainability**

- During FY22, Company’s earning profile witnessed deterioration due to subdued market activity. Profitability was impacted, largely due to realized and unrealized capital losses on investment portfolio, consequently posting a Profit After Tax (PAT) of Rs. 324m.
- Decline in core income and higher operating expenses post-merger with BIPLS resulted in increased cost-to-income ratio during FY22.
- The Company’s market risk remains elevated given sizeable short-term investments. Short term investments account for 48% of total equity at end FY22 while the same increased to 54% end-1QFY23.
- Liquidity profile is considered to be adequate with liquid assets providing 1.4x times coverage to total liabilities (FY22 1.2x)
- Capitalization indicators are manageable. Gearing levels were lower, albeit leverage is on the higher side
- Despite challenging market conditions, strong market position of the post-merger entity provides support to business and financial sustainability of the Company. Improvement in earning profile and efficiency levels while managing market risk exposure and liquidity metrics will remain important for rating.

**Business & Financial Sustainability**



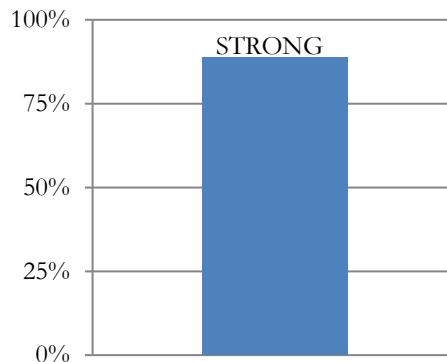
## Management & Client Services

- The Company has a strong geographical footprint. Post-merger, AKDSL has become the largest full-service brokerage and non-bank advisory institution. Geographical footprint has expanded to 10 cities in Pakistan giving it significant boost in client base.
- While client services and facilitation tools have been established, AKDSL is in the process of further augmenting customer experience through various additions.
- At present, AKDSL is pursuing two operational structures in order to optimize efficiencies; centralized trading for AKDSL and branch level trading for BIPLS.
- Organizational structure commensurate with the size of operations of the Company however, a risk management function may be separated which may assist in credit worthiness evaluation procedures.

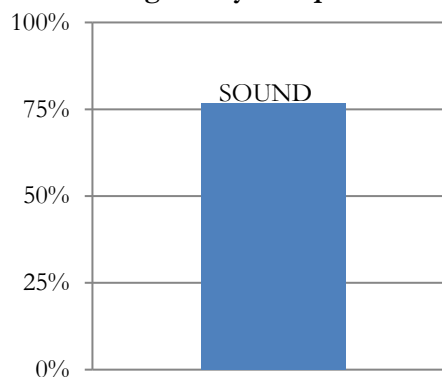
## Internal Controls & Regulatory Compliance

- Being a listed entity bodes well for corporate governance framework. Overall, internal control and regulatory framework is considered sound.
- However, audit procedures and scope may be further strengthened and an independent risk management function may be considered.

## Management & Client Services



## Internal Controls & Regulatory Compliance



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### **Broker Fiduciary Rating Explained**

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*In Securities Broker Fiduciary Rating (SBF), the strength of fiduciary role of the securities brokers is captured through the relative financial strength of the securities broker firm and its sponsors along with depth of internal control and governance framework, which are key rating ingredients. Responsiveness of the risk and internal control structure, quality of HR and soundness of the business infrastructure determine the strength of management and level of service quality of a stock broker. VIS Credit Rating Co. Ltd. (VIS) has developed a rating system that evaluates brokerage firms on the basis of such practices and the systems instituted to safeguard investor interests are at the forefront.*

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**RATING SCALE & DEFINITIONS: [SECURITIES BROKER FIDUCIARY RATING](#)**

**BFR1**

Outstanding fiduciary standards

**BFR4++, BFR4+, BFR4**

Adequate fiduciary standards

**BFR2++, BFR2+, BFR2**

Strong fiduciary standards

**BFR5++, BFR5+, BFR5**

Weak fiduciary standards

**BFR3++, BFR3+, BFR3**

Good fiduciary standards

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**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)

## AKD Securities Limited

## Appendix II

### REGULATORY DISCLOSURES

<b>Name of Rated Entity</b>	AKD Securities Limited			
<b>Sector</b>	Brokerage			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Broker Fiduciary Rating (BFR)			
<b>Rating History</b>	<b>Rating Date</b>	<b>Rating</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: BFR</b>			
	02/09/2023	BFR2++	Stable	Upgrade
	08/03/2022	BFR3++	Rating Watch Developing	Update
	04/08/2022	BFR3++	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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