RATING REPORT

MRA Securities Limited

REPORT DATE:
January 3, 2020

RATING ANALYSTS:

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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date		

COMPANY INFORMATION	
Incorporated in 2000	**External auditors:** Nasir Javaid Maqsood Imran Chartered Accountants Co.
Unlisted Public Limited Company	**Chairman of the Board:** Muhammad Farhan
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mirza Muhammad Baig
Rafiq Family	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Securities Firms Rating (May 2015)
http://www.vis.com.pk/Images/Securities%20methodology%201%20-2015.pdf

MRA Securities Limited

OVERVIEW OF THE INSTITUTION

MRA Securities Limited was incorporated in 2000. Registered office is located at PSX, Karachi, Pakistan.

Financial statements are audited by Nasir Javaid Maqsood Imran Chartered Accountants Co.

Profile of Chief Executive Officer

Mirza Mohammad Baig is a Graduate in Commerce and has vast experience in banking and Trusteeship of Mutual Funds. He joined as a member of core team of MRA Securities (Pvt.) limited in 2007. He has played an instrumental role in operation and Marketing for Custodian and Trustee business.

Profile of Chairman

Muhammad Farhan has over 15 years of vast and diversified experience in equity market, brokerage house Management, Proprietary Equity Trading, Retail Client Risk Management. Under his supervision MRA successfully pass through from the Pakistan's worst equity market crises during 2005 and 2008 which financially affected the brokerage business, retail clients and their portfolios. He also has the experience of Portfolio Management for High Net-worth Clients. He is a graduate in Commerce from University of Karachi.

RATING RATIONALE

MRA Securities Limited (MRA) is principally engaged in provision of equity brokerage services to domestic clients. Majority shareholding in MRA is vested with the Rafiq family. Almost entire portion of the company's brokerage revenues emanates from retail clients with commission from institutions accounting for less than 2% brokerage income.

Currently, the brokerage operates through its head office based in Karachi and 8 branches in the same city. Operations at branch level are limited to brokerage services only. Senior management comprises individuals having experience in the brokerage industry. Employee turnover is on the lower side, with a large number of key personnel having been associated with the company for over five years.

Brokerage is core business of MRA with contribution of 93% to recurring revenues in FY19. Equity brokerage department has two key areas 1) Domestic Institutions and 2) Retail Sales and High Net Worth Individuals (HNWIs).

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 MRA's profitability would be tracked by VIS.

Corporate governance framework depicts room for improvement while internal controls are adequate.

Board of Directors at MRA comprises three members. Board is chaired by Muhammad Farhan. In line with best practices, the Board also includes one independent director. The BoD meets on a quarterly basis. Discussions in board meetings pertained to increase in share capital, working capital requirements, funding lines and legal issues. Minutes of board meetings are very brief and may be made more comprehensive. Other board level committees include Board Audit Committee, Board Risk Management Committee, Board Investment Committee and Board Human Resources Committee. Minutes of other board level committees are not documented. Financial statements are audited by Nasir Javaid Maqsood Imran Chartered Accountants Co. which is placed in 'CATEGORY B' of SBP's Panel of Auditors.

All IT support related to infrastructure is provided by 'Vision Technologies', a third-party vendor. The company uses online trading platform called 'Vision XS'. Backup arrangements include a server at the head office premises. Disaster recovery system and plan is in place. MRA uses 'StockXS' risk management system. Exposure management of clients is conducted by designated risk assessment officer at each branch level. The same system also has modules for clearing and settlement.

Revenues have been maintained in prevailing environment; concentration in revenues from equity brokerage along with investment portfolio exposes bottom line to market volatility.
Brokerage is core business of MRA with contribution of 93% to recurring revenues in FY19. Brokerage commission comprises equity brokerage commission and margin financing income; it has decreased on timeline basis to Rs. 322.4m (FY18: Rs. 249.8m; FY17: Rs. 388.3m). Margin financing income increased to Rs. 41.3m (FY18: Rs. 15.1m) in FY19. In line with market volumes, equity brokerage commission has declined on timeline basis to Rs. 281.0m (FY18: Rs. 234.7m; FY17: Rs. 359.5m). Over the last three fiscal years, share of equity brokerage revenue primarily emanated from retail clients (99% in FY19) with commission income from institutions remaining relatively low.

Despite lower recurring income in FY18, operating profitability (recurring income net of administrative expenses and finance cost) increased to Rs. 105.3m (FY17: Rs. 84.2m) on account of greater decline in administrative expenses and finance cost. In FY19, higher recurring income and controlled administrative expenses translated into higher operating profit of Rs. 127.9m. As a result, efficiency ratio has improved on timeline basis to 63.3% (FY18: 60.4%; FY17: 79.2%). Efficiency ratio compares favorably to industry average as management claims that ~90% of salaries & compensation are variable in nature and tied to performance. The company operates an equity investment portfolio. In FY18, profit before tax declined to Rs. 147.4m (FY17: Rs. 195.0m) on account of lower total return on investments. In FY19, profit before tax further reduced to Rs. 82.7m as the company reported loss on investments of 44.6m. Volatility of earnings is likely to be lower if greater proportion of revenues is sourced from non-core business activities such as financial advisory and underwriting.

Going forward, company's strategy is to continue focus acquiring business from retail clients. The management will continue efforts to add institutional clients. In order to further diversify customer base, the company plans to add foreign institutions to its portfolio; in accordance with same, MRA plans to establish a research department by end-2020. Diversification of business activity will be crucial in sustaining a more robust earnings base, thereby offsetting downside risk emanating from the investment portfolio and providing support to the company's overall risk profile.

Capitalization profile has been supported by equity injections and profit retention; leverage indicators have improved in accordance with business volumes.
In FY19, total equity increased to Rs. 849.9m (FY18: Rs. 704.6m; FY17: Rs. 537.4m) on account of capital injection and profit retention. The company has not paid any cash dividend over past three years; management plans to reinvest profits in business to grow it further. Total debt stood at Rs. 395.6m (FY18: Rs. 357.0m). Debt largely comprises running finance (RF) facilities for meeting exposure and working capital requirements. Gearing and leverage have posted a declining trend and were reported at 0.47x (FY18: 0.51x) and 0.70x (FY18: 1.03x) respectively.

Market, credit and liquidity risks are considered manageable.
Market Risk: MRA maintains an investment portfolio managed by Mr. Muhammad Farhan (Chairman). Equity exposure features a mix of ready-future arbitrage transactions and proprietary book.

Credit Risk: MRA has adequate due diligence procedures and policies available in addition to mechanism of clients' credit analysis. Applicable policies for leveraged products have been adopted and limits have been defined which are strictly monitored. Receivables from customers stood at Rs. 232.2m at end-1QFY20 and their ageing is considered to be manageable.

Liquidity Risk: Net Capital Balance (NCB) of the brokerage was reported at Rs. 593m at end-FY18 and stood above regulatory requirement. Liquidity risk is on the lower side.

MRA Securities Limited

Appendix I

FINANCIAL SUMMARY	(amounts in PKR millions)		
BALANCE SHEET	**FY17**	**FY18**	**FY19**
Trade Debts	162.6	208.2	138.4
Advances, deposits and prepayments	761.2	557.3	375.2
Short term investments	67.2	134.1	511.7
Cash and bank balances	12.6	28.8	21.2
Property and Equipment	36.0	29.5	36.9
Long term investment	49.6	29.8	14.1
Total assets	**1,738.3**	**1,427.5**	**1,441.1**
Long Term Loans	332.9	-	50.0
Short Term Loans - Secured	160.9	357.0	345.6
Trade payables	261.9	343.8	178.9
Accrued and other liabilities	140.5	22.1	16.7
Total Liabilities	**1,200.9**	**722.9**	**591.2**
Paid Up Capital	**275.0**	**400.0**	**750.0**
Net Worth	**537.4**	**704.6**	**849.9**
INCOME STATEMENT	**FY17**	**FY18**	**FY19**
Equity brokerage commission	388.3	249.8	322.4
Unrealized loss on revaluation of held for trading sec	(13.7)	(16.9)	(60.6)
Gain on sale of securities - net	78.1	22.5	4.4
Dividend income	2.9	3.7	11.5
Other income	59.7	51.7	25.3
Total Revenue	**515.3**	**310.7**	**303.0**
Administrative expenses	295.2	151.8	188.2
Other charges	-	2.5	-
Financial charges	25.0	9.1	32.1
Profit before Tax	**195.0**	**147.4**	**82.7**
Profit after Tax	**147.7**	**56.8**	**32.6**
RATIO ANALYSIS	**FY17**	**FY18**	**FY19**
Liquid Assets to Total Liabilities (%)	6.6%	22.5%	90.1%
Liquid Assets to Total Assets (%)	4.6%	11.4%	37.0%
Current Ratio (x)	1.88	1.88	2.55
Leverage (x)	2.23	1.03	0.70
Gearing (x)	0.92	0.51	0.47
Efficiency (%)	79.2%	60.4%	63.3%
ROAA (%)		3.6%	2.3%
ROAE (%)		9.1%	4.2%

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	MRA 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				
03-01-2020	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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