RATING REPORT

MRA Securities Limited

REPORT DATE:
October 18, 2021

RATING ANALYST:
Muhammad Tabish
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*October 18, 2021*		*December 21, 2020*	

COMPANY INFORMATION	
Incorporated in 2000	**External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq, CA
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 (July 2020)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/SecuritiesFirm202007.pdf

MRA Securities Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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

During the period under review, Rahman Sarfaraz Rahim Iqbal Rafiq, CA were appointed as external auditors in place of Nasir Javaid Maqsood Imran CA Co.

Profile of CEO

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

MRA Securities Limited (MRA) with a decade long experience has been engaged in provision of equity brokerage services catering to domestic retail, high net worth individuals and institutional clients. In addition, corporate advisory and other valued added services are also offered by the company. At present, total staff strength stands at 125+ employees. Headquartered in Karachi, the brokerage house has 9 other branches in the same city. Majority shareholding in MRA is vested with the Rafiq family.

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 (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.

Market share remains strong; retail clientele has witnessed a sizeable growth in the outgoing fiscal year. Going forward, focus would remain on the growth of retail

Management for High Net-worth Clients. He is a graduate in Commerce from University of Karachi.

operations.
MRA's market share (in volumetric terms and excluding in-house investment trading) remains strong at above 15%. Domestic retail clientele of the company has witnessed consistent growth over the years and at present stands at 6K+ individuals (of which ~80% are active including 300 HNWI), growing by ~33% vis-à-vis previous year. Going forward, future business strategy is aligned to focus towards increasing retail penetration by leveraging digital platforms and branch network. In view of same, the management has planned to open one branch in Islamabad in the ongoing year. Alongside, efforts to add institutional clients will also be continued. Furthermore, the management is in process of acquiring a third party research service in order to enhance customer facilitation.

Table: Client Base

No. of clients	FY18	FY19	FY20	FY21
Domestic Institutional	93	112	108	118
Retail/ Individuals	4,919	4,806	5,127	6,829
Total	**5,012**	**4,918**	**5,235**	**6,947**

Over the years, business generated from retail base has largely shifted towards online clients with the same constituting around 70% of total clients. Given high granularity in retail base, client exposures are fragmented and concentration risk is low.

MRA's trading volumes outpaced the industry growth leading to a sizeable jump in brokerage commission in the outgoing fiscal year. High reliance on the same remains a business risk. Efficiency ratio has depicted slight weakening.
The sizeable jump of 157% in MRA's trading volumes (outpacing the PSX trading volumetric growth of 144%) led to a three-fold increase in equity brokerage commission in the outgoing fiscal year. The same, however, constitute almost entire proportion of recurring revenue base which remains a business concentration risk. Retail clientele forms the major proportion (~95%) of brokerage income while the remaining is shared by domestic institutional business. Furthermore, gain on sale of investments significantly supported the profitability profile in FY21. Given recently acquired underwriting license, contribution of underwriting income to revenues remains small. Going forward, increase in underwriting volumes and diversification in income stream may improve the company's competitive position.

On the costs front, administrative expenses in line with the growth in revenues have witnessed a sizeable jump on account of increase in salaries and agent's commission. The financial charges though remains limited. Despite higher recurring income, the company's cost-income ratio depicted weakening to 66.4% (FY20: 64.0%) which is on the higher side vis-à-vis peers.

Sound liquidity profile; market risk remains high on account of sizeable short term investments.
Given higher liquidity on balance sheet which is mainly being maintained in the form of short term investments (25% of total asset base), liquid assets coverage of liabilities is considered sound. Credit risk is considered manageable given that ~90% of trade debts are outstanding for less than a year. Moreover, 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.

Market risk emanating from investment portfolio is on the higher side as evident from high equity investments in relation to equity (67% at end-FY21). However, adequate diversification in scrips and around 40% of investment portfolio pertaining to ready-future arbitrage transactions provides comfort to some extent to the overall risk profile.

Capitalization profile has been supported by profit retention; leverage indicators have posted a rising trend though remain at manageable levels.
On the back of improved profitability, equity base increased to Rs. 1.8b (FY20: Rs. 1.0b; FY19: Rs. 0.8b). The company has not paid any cash dividend over past three years and the management going forward plans to reinvest profits in business to grow it further. Debt profile is a mix of short-term and long-term debt; however, it largely comprises running finance (RF) facilities, which is utilized to meet the exposure and working capital requirements. Total debt at end-FY21 stands at Rs. 1.8b (FY20: Rs. 0.5b). Gearing and leverage have posted a rising trend and were reported at 0.96x (FY20: 0.51x; FY19: 0.47x) and 1.73x (FY20: 0.96x; FY19: 0.70x) respectively at end-FY21.

Corporate governance framework is considered sound.
Board of Directors (BoD) at MRA comprises 4 members including the CEO. The Board also includes one independent director in line with the best practices. Room for improvement exists in terms of board size to avoid repetition of common committee members. 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. During the period under review, Rahman Sarfaraz Rahim Iqbal Rafiq, CA which is placed in 'Category A' of SBP's Panel of Auditors were appointed as external auditors.

FINANCIAL SUMMARY *(amounts in PKR millions)* Appendix I

BALANCE SHEET	FY17	FY18	FY19	FY20	FY21
Trade Debts	162.6	208.2	138.4	407.4	1,050.7
Receivable Against Margin Financing	624.9	429.3	333.7	532.9	1,661.2
Advances, Deposits And Prepayments	761.2	557.3	375.2	447.5	976.8
Short Term Investments	67.2	134.1	511.7	511.2	1,238.3
Cash And Bank Balances	12.6	28.8	21.2	26.9	48.7
Property And Equipment	36.0	29.5	36.9	35.8	61.9
Long Term Investment	49.6	29.8	14.1	-	-
Total Assets	**1,738.3**	**1,427.5**	**1,441.1**	**1,969.7**	**5,046.5**
Long Term Loans	332.9	-	50.0	75.0	335.0
Short Term Loans - Secured	160.9	357.0	345.6	441.4	1,443.3
Trade Payables	261.9	343.8	178.9	337.7	781.3
Accrued And Other Liabilities	140.5	22.1	16.7	108.5	635.1
Total Liabilities	**1,200.9**	**722.9**	**591.2**	**962.6**	**3,194.7**
Paid up Capital	**275.0**	**400.0**	**750.0**	**750.0**	**750.0**
Net Worth	**537.4**	**704.6**	**849.9**	**1,007.1**	**1,851.8**
Income Statement					
Equity Brokerage Commission	388.3	249.8	322.4	489.5	1,475.0
Unrealized Loss On Revaluation Of HFT	(13.7)	(16.9)	(60.6)	(10.3)	6.6
Gain on Sale Of Securities - Net	78.1	22.5	4.4	97.3	697.8
Dividend Income	2.9	3.7	11.5	7.4	17.9
Other Income	59.7	51.7	25.3	28.4	26.3
Total Revenue	**515.3**	**310.7**	**303.0**	**612.3**	**2,223.7**
Administrative Expenses	295.2	151.8	188.2	361.0	1,194.9
Other Charges	-	2.5	-	-	-
Financial Charges	25.0	9.1	32.1	54.8	66.7
Profit Before Tax	**195.0**	**147.4**	**82.7**	**196.5**	**962.1**
Taxation	47.3	90.6	50.1	36.0	117.4
Profit After Tax	**147.7**	**56.8**	**32.6**	**160.6**	**844.7**
Ratio Analysis					
Current Ratio	1.9	1.9	2.6	2.2	1.7
Liquid Assets To Total Liabilities (%)	6.6%	22.5%	90.1%	55.9%	40.3%
Liquid Assets To Total Assets (%)	4.6%	11.4%	37.0%	27.3%	25.5%
Leverage (X)	2.23	1.03	0.70	0.96	1.73
Gearing (X)	0.92	0.51	0.47	0.51	0.96
Efficiency (%)	61.2%	48.3%	52.2%	64.0%	66.4%
ROAA (%)	NA	3.6%	2.3%	9.4%	24.1%
ROAE (%)	NA	9.1%	4.2%	17.3%	59.1%

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				
18-10-2021	A-	A-2	Stable	Reaffirmed
21-12-2020	A-	A-2	Stable	Reaffirmed
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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Muhammad Farhan	Chairman	September 22, 2021
Mr. Zubair	Compliance Officer	