

RATING REPORT

MRA Securities Limited

REPORT DATE:

January 24, 2024

RATING ANALYST

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Negative	
Rating Date	January 24, 2024		November 11, 2022	
Rating Action	Maintained		Maintained	

COMPANY INFORMATION

Incorporated in 2000

External auditors: Rahman Sarfaraz Rahim Iqbal Rafiq, CA

Unlisted Public Limited Company

Chairman of the Board: Mohammad Shoaib

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

<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>

MRA Securities Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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

MRA Securities Limited (‘MRA’ or ‘the Company’) 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. Headquartered in Karachi, the brokerage house has 8 other branches in the same city. Majority shareholding in MRA is vested with the Rafiq family.

Profile of CEO

Mirza Mobammad 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.

Rating Drivers

Improved trading activity, albeit business risk remains high

In the fiscal year 2023, Pakistan encountered significant challenges stemming from a combination of political instability and devastating floods. Furthermore, the country's economic prospects worsened due to soaring inflation, driven by global commodity prices, currency devaluation, and fiscal imbalances. The aftermath of a vote of no confidence in April 2022, coupled with ongoing political uncertainty, exacerbated the market's depressive state. The situation was compounded with rise in interest rates. From April 2022 to June 2023, the SBP increased rates from 12.5% to 22%, often surpassing market expectations. These rate hikes adversely affected market sentiment and investor confidence, keeping the stock market activity subdued.

Table 1: Industry Trading Metrics – Regular

	FY19	FY20	FY21	FY22	FY23	HYFY24
Volume (In Billions)	37	49	131	73	47	59
Value (In PKR Billions)	1,549	1,789	4,781	2,406	1,504	1,803

Profile of Director

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.

Despite these challenges, many companies in Pakistan performed well, depicting an undervalued market. Companies recognized this opportunity and initiated share buybacks to capitalize on favorable price multiples, thereby absorbing excess liquidity from the market. However, concerns about the country's macroeconomic situation and the specter of default remains at the forefront of market concerns. The announcement of general elections has sparked interest in the recent months with KSE -Index increasing 55% in the past five months to a new all-time high above 62,000. Market volumes in the last three months have also gained pace. Going forward, there is room for further growth as current market capitalization to GDP of KSE-100 Index is trading at a discount of 26% compared to the last 5-year average. Nevertheless, timely elections and political stability will remain key to market performance.

Higher market share and large retail client base provides competitive advantage

MRA has established itself as a major player in the industry after recuperating its market share to ~14% in FY23 from 12.8% last year. Over the last three months, MRA has been listed by PSX as the top brokerage in terms of value and volumes traded. MRA’s retail base also remains strong with about 98% of retail clients off the total 8080. During FY23, client base was maintained, however post July 2023 with the pickup of market activity about 348 new accounts have been added till Dec 2023. In terms of revenues, about 95% of revenues are generated from the retail segment.

The Company’s revenue mix remains heavily reliant on brokerage income, which accounts for more than 87% of total revenues. In terms of efficiency, cost to income ratio fares well against peers, although still being on the higher side at average 85%.

Market risk remains heightened

While depicting a decline in FY23, market risk remains on the higher side with short-term portfolio increasing to 80% of equity at the end of Dec 2023. On average propriety book has been maintained above 50% of equity, which exposes the Company to market volatility. For the last two years, profitability was hit by losses booked against these investments. Investment portfolio remains fairly diversified with oil and gas, cement, textiles and pharma as leading sectors. Managing market risk will remain important, going forward.

However, liquidity metrics remain sound with liquid assets to liabilities and to assets at 105% and 45% respectively. Current ratio stands strong at 2.67x at the end of HYFY24.

Capitalization indicators depict increase

On the back of strong profitability in HYFY24, equity base registered growth to Rs 1.7b at end Dec 2023 after consistently being eroded in the last 2 years on account of losses. Gearing and leverage metrics depict an increase over time, albeit remain manageable for now at 0.48x and 0.76x respectively. However, maintaining the same remains important.

Corporate governance framework is considered adequate and presents room for improvement.

At present, the board of director is represented by three members, inclusive of two independent directors. Room for improvement exists in terms of board size and composition of board level committees without repetition of members for further strengthening of corporate governance framework.

In addition, while financials are audited by Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants, classified in 'Category A' of SBP's Panel of Auditors, they are qualified by the auditor on account of reservations on provisions for staff retirement benefits. Furthermore, formalization and dissemination of internal policies with respect to investments and risk management may further strengthen the control framework.

MRA Securities Limited
Appendix I

Financial Summary (PKR Millions)					
<u>BALANCE SHEET</u>	FY19	FY20	FY21	FY22	FY23
Trade Debts	138.4	407.4	1,098.3	809.0	1,189.0
Long Term Investments	14.1	-	-	-	-
Short term Investments	511.7	511.2	1,238.3	988.3	510.4
Cash and Bank balances	21.2	26.9	48.7	38.1	33.7
Total Assets	1,441.1	1,969.7	4,607.1	3,096.3	2,346.6
Trade and Other Payables	178.9	337.7	921.4	366.0	232.6
Short term borrowings	345.6	441.4	1,443.3	919.2	406.8
Paid Up Capital	750.0	750.0	750.0	750.0	1,275.0
Net Worth (excluding revaluation surplus)	849.9	1,007.1	1,868.7	1,497.6	1,418.5
<u>INCOME STATEMENT</u>	FY19	FY20	FY21	FY22	FY23
Total Revenue	303.0	612.3	2,223.7	481.3	529.5
Brokerage Income	322.4	489.5	1,469.6	767.2	549.5
Dividend Income	11.5	7.4	17.9	22.7	14.0
Administrative Expenses	188.2	361.0	1,196.5	746.3	511.6
Finance Costs	32.1	54.8	66.7	85.2	143.0
Profit Before Tax	82.7	196.5	959.6	(351.0)	(129.1)
Profit After Tax	32.6	160.6	828.7	(371.1)	(140.6)
<u>RATIO ANALYSIS</u>	FY19	FY20	FY21	FY22	FY23
Liquid Assets to Total Liabilities	90.1%	55.9%	47.0%	64.2%	58.6%
Liquid Assets to Total Assets	37.0%	27.3%	27.9%	33.2%	23.2%
Leverage	0.70	0.96	1.24	0.91	0.63
Gearing	0.47	0.51	0.65	0.52	0.45
Current Ratio (x)	2.55	2.17	1.66	1.88	3.09
Efficiency (%)	52.4%	68.7%	78.8%	89.3%	85.0%
ROAA (%)	2.3%	9.4%	25.2%	-9.6%	-5.2%
ROAE (%)	4.2%	17.3%	57.6%	-22.1%	-9.6%

REGULATORY DISCLOSURES					Appendix II
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				
	24-01-2024	A-	A-2	Stable	Maintained
	11-11-2022	A-	A-2	Negative	Maintained
	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		Director		
	Mr. Zubair		Compliance Officer		January 11, 2024