RATING REPORT

Mohammad Munir Mohammad Ahmed Khanani Securities Limited

REPORT DATE:
August 17, 2021

RATING ANALYST:
Muhammad Tabish
muhammad.tabish@vis.com.pk

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	*August 17, 2021*		*May 7, 2020*	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION

Incorporated in March 2006	**External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Unlisted Public Limited Company	**Chairman of the Board:** Muhammad Farhan
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Munir Khanani
Mr. Muhammad Munir Khanani – 99.99%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/SecuritiesFirm202007.pdf

Mohammad Munir Mohammad Ahmed Khanani Securities Limited

OVERVIEW OF THE INSTITUTION

Mohammad Munir Mohammad Ahmed Khanani Securities Limited (MMMAKS) was incorporated in March 2006. The Company is a Trading Right Entitlement Certificate Holder of Pakistan Stock Exchange. Registered office is located at PSX, Karachi, Pakistan.

Financial statements of FY20 were audited by Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants.

Profile of Chief Executive Officer

Mr. Mohammad Munir Khanani is a seasoned professional with vast experience in the brokerage industry. He has served the Pakistan Stock Exchange diligently on various positions for many years; these positions include Director of Pakistan Stock Exchange, Chairman of Arbitration Committee of PSX, and Committee member of Margin Financing Product.

RATING RATIONALE

Operating in broking business for 15 years, Mohammad Munir Mohammad Ahmed Khanani Securities Limited is primarily engaged in provision of equity brokerage, research and underwriting services. Client base includes domestic and international retail, high net worth individuals and local institutions. Majority shareholding of the company is vested in Mr. Mohammad Munir Khanani. At present, total staff strength stands at 70+ employees while senior management team comprises well-experienced and dedicated professionals having long association with the company. Headquartered in Karachi, the brokerage house has a branch network of total 14 branches; 8 are located in Karachi, 3 in Lahore, 1 in Islamabad, 1 in Peshawar and 1 in Hyderabad.

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 has depicted a strong growth trend; management plans to remain focused on the growth of retail operations through branch expansion and leveraging digital platforms.

The company's market share (in volumetric terms) has witnessed sizeable improvement on a timeline basis, increasing to 9.3% (FY20: 6.9%; FY19: 4.3%) in FY21. At present, domestic retail clientele of the company stands at 12K+ individuals, growing by ~30% vis-à-vis previous year. The management has planned to further increase retail penetration through expansion of branch network and leveraging digital platforms. In this regard, 5-6 branches have been added to the branch network since last review (mainly in Peshawar, Sahiwal, Karachi & Islamabad) while further addition of 2 new branches is planned in the ongoing fiscal year; taking total number of branches to 20 by end-June 2022. Furthermore, in order to enhance customer relationship management, IT system has been revamped which mainly included the upgradation of trading portal, mobile application and web-based portal.

Table: Client Base

No. of clients	FY18	FY19	FY20	FY21
International Retail	317	350	468	719
Domestic Institutional	11	12	31	297
Retail/ Individuals	9,584	9,647	9,621	12,240
Total	**9,912**	**10,009**	**10,120**	**13,256**

Over the years, business generated from retail base has witnessed a shift towards online clients while given high granularity in retail base, client exposures are fragmented and concentration risk is low.

Rebound in trading volumes led to improvement in core income while sizeable capital gains on short term investments supported the profitability profile. Ratings are sensitive to the inherent market risk and the volatility in the stock market given the sizeable proportion of the investment in proprietary book.

More than 96% of core revenue is derived from equity brokerage activities and dividend income while other revenue sources include margin financing income, rental proceeds and underwriting service income. Akin to the industry, the company's recurring revenue has depicted a strong growth, registering an increase of more than two-fold during 9M'FY21. Revenue concentration in equity brokerage continues with some diversification into underwriting during the review period.

On the costs front, operating overheads in line with growth in topline increased considerably due to higher salaries expenses whereas financial charges reduced by half given the decline in benchmark rates. The company's cost-income ratio improved to 38% (FY20: 46%) in 9M'FY21. Furthermore, sizeable capital gain on investments of Rs. 1.2b (FY20: Rs. 124.1m) supported the profitability profile and the company reported a profit after tax of Rs. 1.1b (FY20: Rs. 363.2m) in 9M'FY21. Going forward, given that the company maintains a sizeable propriety book, financial performance would remain sensitive to the vagaries of local stock market and is subject to risks associated with it.

Capitalization levels are supported by profit retention; leverage indicators have trended upwards in line with the increase in business volumes.

Equity base increased by ~86% in 9M'FY21 and amounted to Rs. 2.5b (FY20: Rs. 1.4b; FY19: Rs. 981.9m) on account of 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. Debt profile is entirely short-term in nature and is utilized to meet the exposure and working capital requirements. On the back of higher trading volumes, total debt increased to Rs. 1.7b (FY20: 792.8m; FY19: Rs. 481.6m) at end-9M'FY21. Given higher utilization of running finance, leverage indicators have trended upwards in line with the increase in business volumes.

Credit risk is manageable while market risk remains high given that the company has a sizeable investment book with active participation in propriety trading

Credit risk is considered manageable given that entire institutional trades are conducted through Institutional Delivery System (IDS) while trade debts ageing depicted improvement with receivables outstanding for more than one year constitute ~10% (vis-à-vis ~30% in FY19) of total trade debts in FY21.

Market risk is on the higher side given that the company operates an equity investment portfolio of Rs. 2.3b (FY20: Rs. 988.9m; FY19: 867.3m) at end-9M'FY21 which is sizeable in relation to equity. However, management has set a revised limit of 1.0x for its proprietary book in relation to its equity.

Corporate governance and internal control framework is considered adequate

At present, Board of Directors (BoD) comprises five members while one-third of the board is represented by independent directors. Management may consider segregating resources for the positions of CEO and Chairman of the Board. In line with best practices, Board Audit Committee (BAC) is chaired by independent director. An internal in-house audit function is also in place. Financial statements are audited by Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants Co., which is classified in 'Category A' of SBP's Panel of Auditors.

Mohammad Munir Mohammad Ahmed Khanani Securities Limited

FINANCIAL SUMMARY *(PKR in millions)*				Appendix I
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**9M'FY21**
Trade Debts	659.6	439.8	1,054.2	2,325.7
Short term investments	1,321.3	867.3	988.9	2,298.0
Cash and bank balances	512.8	382.7	571.7	955.1
Total Assets	**2,713.5**	**1,881.5**	**2,867.0**	**5,923.4**
Long Term Loans	-	-		
Short Term Loans - Secured	620.5	481.6	792.8	1,696.0
Trade payables	557.5	404.6	722.6	1,712.4
Total Liabilities	**1,192.8**	**899.6**	**1,521.9**	**3,423.0**
Issued, subscribed and paid up capital	395.1	395.1	395.1	395.1
Equity (excluding revaluation surplus)	**1,518.5**	**981.9**	**1,345.1**	**2,500.4**
INCOME STATEMENT				
Commission, dividend and other income	193.8	165.6	161.3	347.9
Capital (Loss)/ gain on investments	(334.4)	(481.2)	124.1	1,193.3
Total Revenue	**(143.1)**	**(315.6)**	**285.4**	**1,541.2**
Administrative expenses	(60.6)	(60.9)	(74.3)	(132.2)
Other income/(expenses) - net	11.8	21.0	13.5	19.1
(Diminution)/Appreciation in short term investments	28.6	(109.0)	220.0	(47.7)
Financial charges	(48.5)	(73.9)	(74.4)	(35.2)
Profit before Tax	**(211.7)**	**(538.4)**	**370.2**	**1,345.2**
Profit after Tax	**(318.8)**	**(565.8)**	**363.2**	**1,155.3**
RATIO ANALYSIS				
Liquid Assets to Total Liabilities (%)	153.8%	139.0%	102.5%	95.0%
Liquid Assets to Total Assets (%)	67.6%	66.4%	54.4%	54.9%
Leverage (x)	0.79	0.92	1.13	1.37
Current Ratio (x)	2.20	2.03	1.78	1.68
Gearing (x)	0.41	0.49	0.59	0.68
Efficiency (%)	30.0%	34.6%	42.9%	36.0%
ROAA (%)	-10.5%	-24.6%	12.7%	19.5%
ROAE (%)	-19.0%	-45.3%	27.0%	46.2%

ISSUE/ISSUER RATING SCALE & DEFINITION 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.

<table>
<tr><th colspan="2">REGULATORY DISCLOSURES — Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td>Mohammad Munir Mohammad Ahmed Khanani Securities Limited</td></tr>
<tr><td>Sector</td><td>Brokerage Industry</td></tr>
<tr><td>Type of Relationship</td><td>Solicited</td></tr>
<tr><td>Purpose of Rating</td><td>Entity Rating</td></tr>
<tr><td>Rating History</td><td>
<table>
<tr><th>Rating Date</th><th>Medium to Long Term</th><th>Short Term</th><th>Rating Outlook</th><th>Rating Action</th></tr>
<tr><td>17-Aug-21</td><td>A-</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>07-May-20</td><td>A-</td><td>A-2</td><td>Stable</td><td>Initial</td></tr>
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</td></tr>
<tr><td>Instrument Structure</td><td>N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td>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.</td></tr>
<tr><td>Probability of Default</td><td>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.</td></tr>
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<tr><td>Due Diligence Meeting Conducted</td><td>
<table>
<tr><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>Mr. Abdul Razzak</td><td>CFO</td><td rowspan="2">August 6, 2021</td></tr>
<tr><td>Mr. Abdul Hadi Khanani</td><td>Head of Operations</td></tr>
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