RATING REPORT

Mohammad Munir Mohammad Ahmed Khanani Securities Limited

REPORT DATE:
November 07, 2022

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

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		Stable	
Rating Date	*November 07, 2022*		*August 17, 2021*	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 2006	**External Auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Unlisted Public Entity	**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 (June 2020)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/SecuritiesFirm202007.pdf

Mohammad Munir Mohammad Ahmed Khanani Securities Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Mohammad Munir Mohammad Ahmed Khanani Securities Limited 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.

External auditors are 'Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants'. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Profile of CEO

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.

Mohammad Munir Mohammad Ahmed Khanani Securities Limited (MMK) has been engaged in the provision of equity brokerage services with limited presence in commodity segment, catering to domestic and international retail, high net worth individuals and local institutions for over 15 years. In addition, MMK also provides underwriting and corporate advisory services. The company, headquartered in Karachi, has the most branches in comparison to its peers, with total 22 branches nationwide.

Key Rating Drivers:

Post two-years of improving trends, PSX volumes fell in FY22, constraining brokerage industry profitability, particularly for less revenue-diversified firms.
Following PSX's historic performance in terms of volumes in FY21, overall trading volumes dropped ~44% in FY22 (average daily volume dropped to 291m from 527mn). The drop in trading volumes was primarily due to the country's weak macroeconomic environment, which included high inflation and interest rates, as well as rupee depreciation and political turmoil. As a result, brokerage revenues fell in tandem with trading volumes across the industry. This has harmed the profitability of brokerage firms, with some reporting net losses.

Table: Industry Trading Metrics - Ready

PSX Data (Ready + Future)	FY18	FY19	FY20	FY21	FY22
Volume (In Billions)	43	37	49	131	73
Value (In PKR' Billions)	2,027	1,549	1,789	4,781	2,406

Uncertainty on the economic and political fronts is expected to keep the sector's trading volumes and profitability under pressure in the ongoing year. To maintain a positive bottom line, brokerage firms are advised to cut operating expenses and diversify their revenue base.

PSX's recent initiatives to improve the ease of doing business.
PSX has digitized the listing process through an online portal named as PRIDE, Public Offerings Revolutionized through an Integrated and Digitized Experience, in order to improve capital raising and provide convenience to businesses. The portal is designed to automate entire listing process, as well as provide listed companies with delisting services. In terms of new product development, PSX introduced its first dividend-based index, which tracks the performance of the top 20 dividend-paying stocks.

Healthy market share along with extensive branch network and retail clientele is a competitive strength.
MMK's market share (in volumetric terms) has slightly declined to 8.2% (FY21: 9.3%; FY20: 6.9%) in FY22. The domestic retail client base currently stands at 14K+ individuals (as per management, ~20% are HNWIs), up 19% from the previous year. The company's extensive branch network continues to provide a competitive edge for retail penetration, which is evident from strong growth of domestic retail clientele in the recent years. In addition, total 4 new branches were added to the branch network over the review period. These branches operate

independently, and regardless of profitability, the brokerage house receives one-third of gross revenue as per agreed terms. Client exposures in retail base are fragmented, and concentration risk is low. Moreover, business generated from retail base has shifted towards online clients over the years.

Table: No. of clients

	FY18	FY19	FY20	FY21	FY22
International Retail	317	350	468	719	1,438
Domestic Institutional	11	12	31	40	42
Retail/ Individuals	9,584	9,647	9,621	12,240	14,582

Going forward, future business strategy is aligned to focus towards expansion of retail footprint by leveraging digital platforms. Alongside, the management intends to open marketing/facilitation centers in the near future.

Amid low market volumes, MMK managed to post positive operating profit; however, bottom-line was significantly impacted due to revaluation losses.
In FY22, MMK's recurring revenues fell by ~34%, in line with the industry trend of subdued market volumes; however, topline in absolute terms remained highest in comparison to FY17-20 period. On last five year average basis, around one half of core revenue is derived from equity brokerage activities (with majority of revenues contributed from retail clientele), followed by dividend income, margin financing income, rental proceeds and underwriting service income. Baring equity brokerage, all other revenue streams noted growth.

In line with decline in revenues, administrative overheads were also curtailed during the year; however, cost-income ratio still weakened to 39.6% (FY21: 35.1%) yet compares favorably to peers. Moreover, despite higher financial charges (due to increased debt utilization and higher benchmark rates), the company managed to post positive operating profit; however, sizeable revaluation losses of Rs. 711m on proprietary book resulted in net losses. Given sizable propriety book, financial performance would remain vulnerable to whims of local stock market, as well as the risks associated with it. Hence, ratings are sensitive to the inherent market risk.

Credit risk is manageable whereas market risk remains elevated given sizable investment book and active participation in proprietary trading.
Liquidity profile is deemed sound with sufficient coverage of total liabilities in relation to liquid assets (FY21: 94.3%). Trade debts though have decreased in the outgoing fiscal year, the quantum remains sizeable. Ageing of trade debts is indicative of medium credit risk with around 53% of receivables outstanding for more than 30 days. Market risk is elevated, as the company operates equity investment portfolio of Rs. 1.2b (FY21: Rs. 2.2b) at the end-FY22, which is sizeable in terms of equity. As per management, ~10% is invested in fixed income securities while total limit has been set at 1.0x for its proprietary book in relation to equity.

Sound capitalization levels with improving leverage metrics
Owing to sizeable net losses, equity base declined by ~25% and stood at Rs. 2.2b (FY21: Rs. 2.9b) at end-FY22. There is no separate dividend policy in place, and the management has not paid any cash dividend over the last five years to improve capitalization. Debt profile is entirely short-term in nature with running finance lines of more than Rs. 2b available to meet the exposure and working capital requirements. Given the decrease in trading volumes and lower debt utilization, leverage indicators have trended downwards during the period under review.

Sound governance framework

MMK has a qualified senior management team in place with extensive experience in relevant fields and knowledge of brokerage industry. Board comprises five members with one-third being represented by independent directors. As per best practices, board audit committee is chaired by an independent director while in-house internal audit function is also in place. Management may consider segregating resources for the positions of CEO and Board Chairman. Since last review, there has been no change in board of director or senior management team.

Mohammad Munir Mohammad Ahmed Khanani Securities Limited Appendix I

FINANCIAL SUMMARY *(PKR in millions)*					
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**FY22***
Trade Debts	659.6	439.8	1,054.2	3,255.3	2,046.2
Short Term Investments	1,321.3	867.3	988.9	2,208.0	1,156.9
Cash & Bank Balances	512.8	382.7	571.7	1,089.2	902.8
Total Assets	**2,713.5**	**1,881.5**	**2,867.0**	**6,882.3**	**4,392.3**
Long Term Loans *(Including Current Portion)*	-	-		-	-
Short Term Loans - Secured	620.5	481.6	792.8	2,054.9	1,198.8
Trade Payables	557.5	404.6	722.6	1,857.1	975.4
Total Liabilities	**1,192.8**	**899.6**	**1,521.9**	**3,926.6**	**2,185.2**
Paid Up Capital	395.1	395.1	395.1	395.1	395.1
Equity *(Excluding Revaluation Surplus)*	**1,518.5**	**981.9**	**1,345.1**	**2,942.0**	**2,207.0**
INCOME STATEMENT					
Commission, Dividend & Other Income	193.8	165.6	161.3	519.7	342.4
Capital (Loss)/ Gain on Investments	(334.4)	(481.2)	124.1	1,289.2	(148.7)
Total Revenue	**(143.1)**	**(315.6)**	**285.4**	**1,809.0**	**193.7**
Administrative Expenses	(60.6)	(60.9)	(74.3)	(187.8)	(142.9)
Other Income/(Expenses) – net	11.8	21.0	13.5	15.5	26.6
(Diminution)/Appreciation in Short Term Investments	28.6	(109.0)	220.0	221.1	(710.7)
Financial Charges	(48.5)	(73.9)	(74.4)	(55.6)	(100.5)
Profit Before Tax	**(211.7)**	**(538.4)**	**370.2**	**1,802.1**	**(733.9)**
Profit After Tax	**(318.8)**	**(565.8)**	**363.2**	**1,596.9**	**(735.0)**
RATIO ANALYSIS					
Liquid Assets to Total Liabilities (%)	153.8%	139.0%	102.5%	83.7%	94.3%
Liquid Assets to Total Assets (%)	67.6%	66.4%	54.4%	47.9%	46.9%
Leverage (x)	0.79	0.92	1.13	1.34	0.99
Current Ratio (x)	2.20	2.03	1.78	1.71	1.93
Gearing (x)	0.41	0.49	0.59	0.70	0.54
Efficiency (%)	30.0%	34.6%	42.9%	35.1%	39.6%
ROAA (%)	-10.5%	-24.6%	12.7%	23.2%	-16.7%
ROAE (%)	-19.0%	-45.3%	27.0%	54.3%	-33.3%

Management Accounts

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.

<table>
<tr><th colspan="1">REGULATORY DISCLOSURES</th><th colspan="5">Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td colspan="5">Mohammad Munir Mohammad Ahmed Khanani Securities Limited</td></tr>
<tr><td>Sector</td><td colspan="5">Brokerage</td></tr>
<tr><td>Type of Relationship</td><td colspan="5">Solicited</td></tr>
<tr><td>Purpose of Rating</td><td colspan="5">Entity Rating</td></tr>
<tr><td rowspan="5">Rating History</td><td>Rating Date</td><td>Medium to Long Term</td><td>Short Term</td><td>Rating Outlook</td><td>Rating Action</td></tr>
<tr><td colspan="5">RATING TYPE: ENTITY</td></tr>
<tr><td>07-Nov-22</td><td>A-</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></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>
<tr><td>Instrument Structure</td><td colspan="5">N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td colspan="5">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 colspan="5">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 rowspan="2">Due Diligence Meeting Conducted</td><td colspan="2">Name</td><td colspan="2">Designation</td><td>Date</td></tr>
<tr><td colspan="2">Mr. Abdul Hadi</td><td colspan="2">Head of Operations</td><td>Oct 24, 2022</td></tr>
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