

RATING REPORT

Muhammad Munir Muhammad Ahmed Khanani Securities Limited

REPORT DATE:

March 28, 2024

RATING ANALYST:

Shaheryar Khan Mangan

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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		Stable	
Rating Date	March 28, 2024		November 7, 2022	
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: Mr. Muhammad Munir Khanani
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Muhammad Munir Khanani
<i>Mr. Muhammad Munir Khanani – 99.99%</i>	

APPLICABLE METHODOLOGY (IES)

VIS Entity Rating Criteria Methodology – Securities Firms Ratings

<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>

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 Rabim 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 (MMMK) is a brokerage firm based in Karachi, Pakistan, with over 17 years of experience in providing equity brokerage services. While its primary focus is on equity brokerage, it also offers limited services in the commodity segment, along with underwriting and corporate advisory services. The Company serves a diverse clientele, including domestic and international retail investors, high net worth individuals, and local institutions.

The majority ownership of the Company lies with Mr. Mohammad Munir Khanani. With its headquarters in Karachi, MMMK boasts one of the largest branch network among its competitors, with a total of 22 branches nationwide. In terms of geographical presence, MMMK's branches are spread across various cities in Pakistan, including Karachi, Lahore, Islamabad, Peshawar, and Hyderabad. This extensive network allows the company to effectively cater to its diverse client base.

Key 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 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

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 commencement 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 over the last couple of 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, political stability will remain key to market performance.

Sizeable market presence

Sizeable market share combined with an extensive branch network and a large retail customer base serves as a key competitive advantage. MMMK's market share, measured in volume, improved to 9.7%

from 8.2% in FY22. Client base of the company continued to grow in FY23 comprising of 89 % of retail clients. MMMK has also been listed as among the top 10 Companies in terms of booking new customers. The Company's broad branch network remains pivotal in enhancing retail penetration, evident from the substantial growth in the domestic retail clientele in recent years. The retail client base exhibits fragmented exposures, translating to low concentration risk. Moreover, there has been a notable shift towards online clients within the retail base over time.

No of Clients	FY18	FY19	FY20	FY21	FY22	FY23
International individuals	317	350	468	719	1438	1810
Domestic Institutions	11	12	31	40	42	78
Domestic Individuals	9,584	9,647	9,621	12,240	14,582	16,582

Looking ahead, the company's strategic focus is on expanding its retail presence through digital platforms.

Core profitability remained subdued in FY23, however, strong performance recorded in HYFY24.

Revenues in FY23 were lower on account of reduced brokerage income amidst slower market activity as well as capital losses on sale of investments. In addition, operational efficiency was also impacted largely due to inflationary pressures as well as provision buildup of Rs 70m against expected credit losses. Consequently, cost to income ratio declined to 79% for FY23 (FY22: 39%). However, bottom line was supported by unrealized gains recognized on re measurement of investment portfolio, which yielded a gain of Rs. 281m. This provided support to the bottom line profitability of the Company, which was recorded at Rs 139m against a loss of -Rs.735m last year largely due to significant unrealized losses.

In the current year, with market volumes picking up, core revenues have recorded an increase which together with gain in portfolio has resulted in a profit after tax of Rs. 655m, which includes Rs. 308m of realized and Rs. 210m of unrealized gains on investment.

Market risk remains elevated

The Company maintains an active and sizeable propriety book with short-term investment to equity accounting for 81% as of Dec 31, 2023. Market risk exposure as a result stands elevated. This is also reflective in volatility in profitability profile over the years as a result of market movements and corresponding realized and unrealized gains and losses. Managing market risk within reasonable thresholds will remain important for ratings. As of Dec 31, 2023, total short-term portfolio amounted to Rs. 2.4b, up from Rs. 900m at end FY23.

Adequate liquidity profile

Liquidity profile is considered adequate with liquid assets providing about 97% coverage to total liabilities. Trade debts buildup has improved over the time however, overdue receivables (> 60 days) do account for 40% of the total receivables outstanding.

Sound capitalization levels

The Company has been able to maintain a sound capitalization profile with gearing averaging around 0.5x over the last five years and leverage around 0.9x. A relatively large equity base, despite declining last year due to losses, stands at Rs. 3b. Retention of profitability in the Company over the years is reflective in the relatively large equity base, which despite declining last year due to losses, stood at Rs 3b at end Dec 2023. 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. Going forward, with improved market activity, we expect some built up in gearing and leverage, although the same will remain within manageable levels with respect to corresponding equity growth.

FINANCIAL SUMMARY (PKR in millions)					APPENDIX I		
BALANCE SHEET	FY18	FY19	FY20	FY21	FY22	FY23	HY24*
Trade Debts	659.6	439.8	1054.2	3255.3	2046.2	1570.2	2428.7
Short Term Investments	1,321.3	867.3	988.9	2,208.0	1,156.9	900.7	2,448.8
Cash & Bank Balances	512.8	382.7	571.7	1089.2	902.8	872.6	1284.2
Total Assets	2,713.5	1,881.5	2,867.0	6,882.3	4,392.3	3,660.2	6,817.8
Long Term Loans (Including Current Portion)	0	-		-	-		
Short Term Loans - Secured	620.5	481.6	792.8	2054.9	1198.8	587.4	1694.2
Trade Payables	557.5	404.6	722.6	1857.1	975.4	714.5	2098.7
Total Liabilities	1,192.8	899.6	1,521.9	3,940.3	2,185.2	1,315.8	3,817.8
Paid Up Capital	395.1	395.1	395.1	395.1	395.1	395.1	395.1
Equity (Excluding Revaluation Surplus)	1,520.7	981.9	1,345.1	2,942.0	2,207.0	2,344.4	3,000.0
INCOME STATEMENT							
Commission, Dividend & Other Income	193.8	165.6	161.3	519.7	342.4	223.2	248.0
Capital (Loss)/ Gain on Investments	(334.4)	(481.2)	124.1	1289.2	(148.7)	(145.8)	308.4
Total Revenue	(143.1)	(315.6)	285.4	1809.0	193.7	77.4	556.5
Administrative Expenses	(60.6)	(60.9)	(74.3)	(187.8)	(142.9)	(197.0)	(66.4)
Other Income/(Expenses) – net	11.8	21.0	13.5	15.5	26.6	24.9	26.7
(Diminution)/Appreciation in Short Term Investments	28.6	(109.0)	220.0	221.1	(710.7)	281.3	210.7
Financial Charges	(48.4)	(73.9)	(74.4)	(55.6)	(100.522)	(54.6)	(44.8)
Profit Before Tax	(211.7)	(538.4)	370.2	1802.1	(733.9)	131.9	682.6
Profit After Tax	(318.8)	-(565.8)	363.2	1596.9	(735.0)	139.5	655.6
RATIO ANALYSIS							
Liquid Assets to Total Liabilities (%)	153.8%	139.0%	102.6%	83.7%	94.3%	134.8%	97.8%
Liquid Assets to Total Assets (%)	67.6%	66.4%	54.4%	47.9%	46.9%	48.5%	54.8%
Leverage (x)	0.79	0.92	1.13	1.34	0.99	0.56	1.27
Current Ratio (x)	2.20	2.03	1.78	1.71	1.93	2.63	1.73
Gearing (x)	0.41	0.49	0.59	0.70	0.54	0.25	0.56
Efficiency (%)	30.0%	34.6%	42.9%	35.1%	39.6%	79.4%	25.0%
ROAA (%)	-10.5%	-24.6%	12.7%	23.2%	-16.7%	3.8%	9.6%
ROAE (%)	-19.0%	-45.3%	27.0%	54.3%	-33.3%	6.0%	21.9%

*Management Accounts

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Mohammad Munir Mohammad Ahmed Khanani 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
	<u>RATING TYPE: ENTITY</u>				
	28-Mar-24	A-	A-2	Stable	Reaffirmed
	07-Nov-22	A-	A-2	Stable	Reaffirmed
	17-Aug-21	A-	A-2	Stable	Reaffirmed
	07-May-20	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. Abdul Hadi	Head of Operations	February 19, 2024		