

BROKER FIDUCIARY RATING REPORT

Mohammad Munir Muhammad Ahmed Khanani Securities Limited

REPORT DATE:

19 November 2021

RATING ANALYSTS:

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RATING DETAILS

Broker Fiduciary Rating**BFR2***Strong Fiduciary Standards***Rating Rationale**

The rating signifies sound internal controls, financial sustainability and client services while ownership and governance is considered adequate.

Rating Date

19 November, 2021

COMPANY INFORMATION

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

APPLICABLE METHODOLOGY

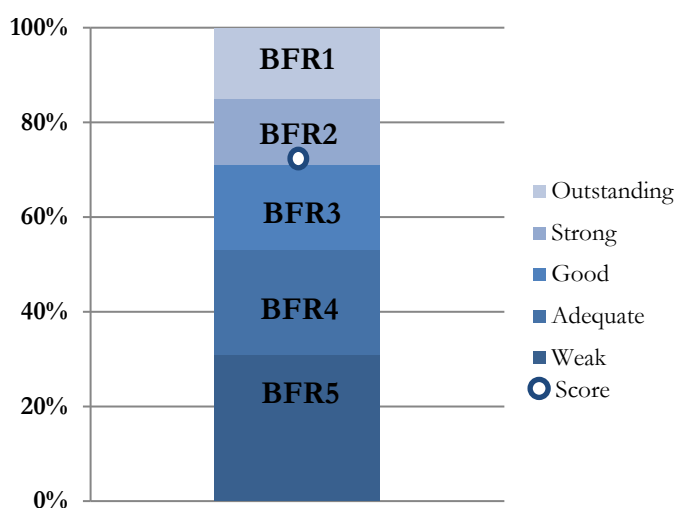
Applicable Rating Criteria: Broker Fiduciary Ratings 2021<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

Mohammad Munir Muhammad Ahmed Khanani Securities Limited

CORPORATE PROFILE

Mohammad Munir Muhammad Ahmed Khanani Securities Limited is a public unlisted company, providing equity and commodity brokerage services and research to institutional as well as retail clients. Major shareholding of the company is vested with Mr. Muhammad Munir Khanani, who serves as the Chief Executive Officer (CEO) of the company. The company provides both online and assisted trading services to its clients, and has offices in Karachi, Lahore, Hyderabad and Islamabad.

OVERALL GRADING



Mohammad Munir Muhammad Ahmed Khanani Securities Limited is a public unlisted company holding Trading Rights Entitlement Certificate (TREC) granted by Pakistan Stock Exchange Limited (PSX), registered with SECP to provide Trading & Self Clearing Services. External auditors of the company are Rehman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants. External auditors belong to category ‘A’ on the approved list of auditors published by the State Bank of Pakistan (SBP).

Business and Financial Sustainability Indicators

	FY21	FY20	FY19
Size of Net Worth (Rs. In Millions)	2,963	1,345	981
Gearing x (Total interest bearing debt/ Total equity)	0.69x	0.59x	0.49x
Leverage x (Total liabilities/ Total equity)	1.33x	1.13x	0.92x
Liquid Assets/ Total Liabilities (x)	0.84x	1.03x	1.39x
Short term Investments/ Total Equity (%)	75%	74%	88%
Market Share (%)	9.32%	6.96%	4.30%
Efficiency (%)	35%	43%	36%

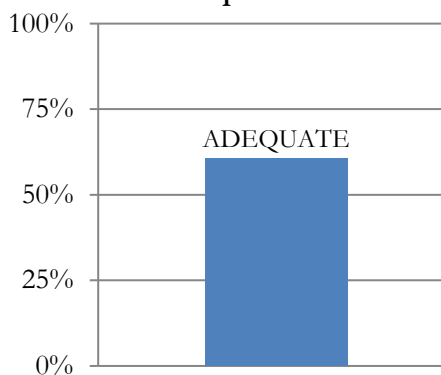
Mohammad Munir Muhammad Ahmed Khanani Securities Limited

Rating Indicators

Ownership & Governance

- The company’s board comprises of 5 members with independent representation. Aligning the company’s governance framework with international best practices may be considered through increasing board size which may also facilitate formation of board committees without repetition of members.
- Disclosure levels may be enhanced through inclusion of CEO statement in financial statements.

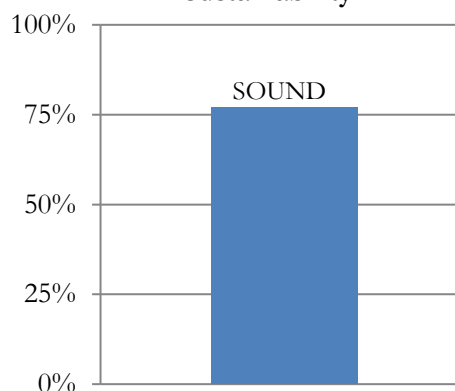
Ownership & Governance



Business & Financial Sustainability

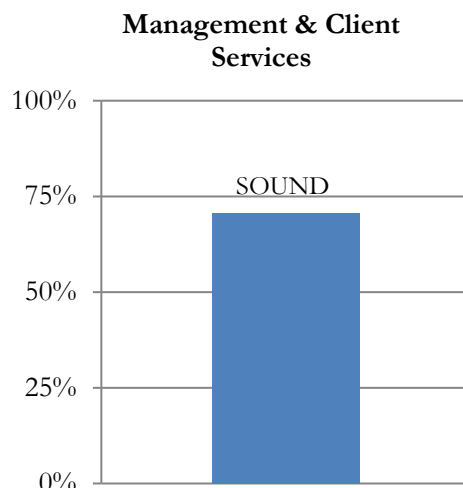
- During FY21, the company significantly increased its profitability on the back of increase in operating revenue and substantial capital gain on investments. Increased trading activity is in line with the market trend.
- Liquidity profile is adequate with liquid assets providing 0.84x coverage to total liabilities at the end of FY21 (FY20: 1.02x, FY19: 1.38x). Gearing remained manageable, while leverage increased to 1.33x (FY20 1.13x). Keeping gearing within acceptable parameters will be important. Market risk is elevated given sizeable propriety book of Rs. 2.3b at the end of FY21. Short term investments to equity stood at 75%.
- Low operating cost coupled with consistent increase in revenues has maintained low cost to income ratio on a timeline basis.
- Overall business and financial sustainability is sound. Increasing revenue streams and market share while maintaining low operating costs and gearing levels will be important for ratings.

Business & Financial Sustainability



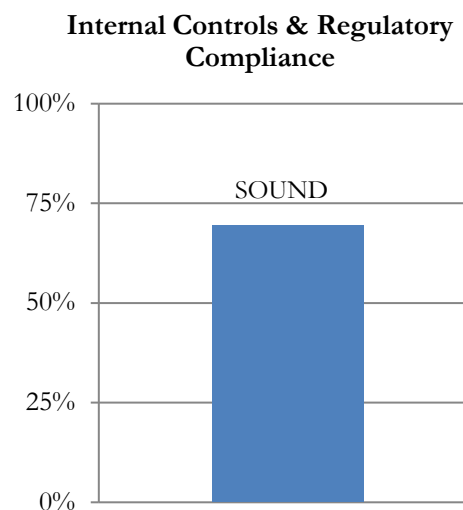
Management & Client Services

- Management and client services are considered adequate. The company has revamped its web-based trading portal and mobile trading application for improved customer assistance.
- Developing a separate, well-defined IT policy may be considered.
- Geographical diversification is adequate, with multiple branches in four cities and more in the pipeline.



Internal Controls & Regulatory Compliance

- Overall internal control and regulatory framework is sound; however, enhancing the scope of policies including Employee Trading policy to include holding and blackout periods may further strengthen the internal control framework.
- Segregation of internal audit and compliance is noted, however, internal audit reporting may be streamlined for greater clarity and independence.



Broker Fiduciary Rating Explained

In Securities Broker Fiduciary Rating (SBF), the strength of fiduciary role of the securities brokers is captured through the relative financial strength of the securities broker firm and its sponsors along with depth of internal control and governance framework, which are key rating ingredients. Responsiveness of the risk and internal control structure, quality of HR and soundness of the business infrastructure determine the strength of management and level of service quality of a stock broker. VIS Credit Rating Co. Ltd. (VIS) has developed a rating system that evaluates brokerage firms on the basis of such practices and the systems instituted to safeguard investor interests are at the forefront.

Mohammad Munir Muhammad Ahmed Khanani Securities Limited

FIDUCIARY RATING SCALE & DEFINITIONS

Appendix I

RATING SCALE & DEFINITIONS: [SECURITIES BROKER FIDUCIARY RATING](#)**BFR1**

Outstanding fiduciary standards

BFR4++, BFR4+, BFR4

Adequate fiduciary standards

BFR2++, BFR2+, BFR2

Strong fiduciary standards

BFR5++, BFR5+, BFR5

Weak fiduciary standards

BFR3++, BFR3+, BFR3

Good fiduciary standards

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

Mohammad Munir Muhammad Ahmed Khanani Securities Limited

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Mohammad Munir Muhammad Ahmed Khanani Securities Limited				
Sector	Brokerage				
Type of Relationship	Solicited				
Purpose of Rating	Broker Fiduciary Rating (BFR)				
Rating History	Rating Date	Rating	Rating Outlook	Rating Action	
	RATING TYPE: BFR				
	19/11/2021	BFR2	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.				
Probability of Default	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.				
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