RATING REPORT

Growth Securities (Private) Limited

REPORT DATE:
May 19, 2020

RATING ANALYSTS:
Muhammad Ibad Desmukh
ibad.deshmukh@vis.com.pk

RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*19/5/2020*	

COMPANY INFORMATION

Incorporated in 2005	**External auditors:** Baker Tilly Mehmood Idrees Qamar Chartered Accountants
Private Limited Company	
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Muhammad Shahid
Muhammad Shahid (51%)	
Muhammad Iqbal (49%)	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017)
http://vis.com.pk/kc-meth.aspx

Growth Securities (Private) Limited

OVERVIEW OF THE INSTITUTION

Growth Securities (Private) Limited was incorporated in 2005 as a private limited company. Registered office is located at PSX, Karachi, Pakistan.

Financial statements are audited by Baker Tilly Mehmood Idrees Qamar Chartered Accountants.

Profile of Chief Executive Officer

GSPL is led by Mr. Muhammad Shahid who has been actively involved in the Capital Markets since 1995, having held various positions in Capital Market Operations at Fortune Securities (Pvt.) Limited, and subsequently as Head of Equity Sales of M/s. Ismail Shakoor till July 2005.

RATING RATIONALE

Growth Securities (Private) Limited (GSPL) is engaged in ready-future arbitrage trading and provision of equity brokerage services to domestic clients. 51% shareholding in GSPL is held by Mr. Muhammad Shahid while remaining 49% stake is held by Mr. Muhammad Iqbal. In FY19, ~71% of the company's revenue emanated from gain on ready future arbitrage while brokerage commission accounted for ~21% of the topline. Financial statements are audited by Baker Tilly Mehmood Idrees Qamar Chartered Accountants which is placed in 'CATEGORY A' of SBP's Panel of Auditors.

GSPL's organizational structure comprises 9 departments with all heads reporting to the Chief Executive Officer (CEO). Senior management comprises individuals having experience in the brokerage and financial services industries (organogram attached in annexure). Employee turnover is on the lower side, with a large number of key personnel having been associated with the company for over five years.

Ready future arbitrage has contribution of ~71% to total revenues in FY19. This is a trading strategy which entails buying shares in the ready market on T+2 basis and selling them in the futures market.

Equity brokerage department has two key areas 1) Domestic Institutions and 2) Retail Sales and High Net Worth Individuals (HNWIs). Total number of clients stood at 207 as at end-December 2019. Domestic Institutional clients have increased on timeline basis. In Jan-Mar 2020, the company further added 4 institutional clients taking the total number to 28.

Number of Clients	FY17	FY18	FY19	1HFY20
Domestic Institutional	6	6	6	24
Domestic Individual	298	298	228	183
Total Clients	**304**	**304**	**234**	**207**

Business Strategy

Although ready future arbitrage is expected to remain the primary revenue contributor, the company plans to grow its brokerage income by focusing on strengthening its institutional client base. Moreover, it plans to further diversify its topline, by entering the corporate advisory and underwriting business.

Key rating drivers:

Brokerage industry continues to be affected by economic cycles. Declining trend in trading volumes over the last two years has impacted topline of the brokerage industry although recovery has been witnessed in past six months.

Performance of the equity market has remained dismal over the past two fiscal years with dwindling trading volumes largely owing to economic slow-down, increasing interest rate environment and aggressive foreign selling. Decline in market volumes was more pronounced for ready market as compared to future market, where volumes remained stagnant. However positive investor sentiment resulting from improving macroeconomic indicators has led to recovery over last six months. Given tough market conditions, players with efficient and variable cost structure along with diversified revenue streams managed to remain profitable. On the other side, players with large proprietary books witnessed losses given weak market performance. Going forward, focus of brokerage companies remains on cost rationalization, strengthening retail client base and focus on higher margin business. Nevertheless, brokerage sector outlook is expected to remain challenging; impact of recently revised brokerage commission structure for all security brokers and recent uptick in market volumes on GSPL's profitability would be tracked by VIS.

Satisfactory corporate governance framework

Board of Directors at GSPL comprises two members, Mr. Muhammad Shahid (CEO) and Mr. Zeeshan (son of Mr. Muhammad Iqbal). In line with best practices, additional directors may be appointed to the board and independent directors may also be inducted. Discussions in board meetings pertained to increase in budget, regulatory affairs and financial performance. Minutes of board meetings are very brief and may be made more comprehensive.

Compliance and Internal Audit functions are combined and report to CEO. A board approved internal audit plan is in place. As per GSPL's trading policy, the compliance department is responsible to oversee personal investment portfolios of the employees on a quarterly basis. As per regulation, employees of a brokerage house are not allowed to operate personal accounts in any other brokerage company; this facilitates monitoring of trading activities of employees. As such, employees are not restricted from making investments.

Ready future arbitrage contributes majority of revenue.
Ready future arbitrage is the primary revenue contributor of GSPL amounting to Rs. 87.4m (FY18: Rs. 84.1m) in FY19. In 1HFY20, ready future arbitrage income amounted to Rs. 60.6m. In contrast, equity brokerage income has declined on a timeline basis to Rs. 26.3m (FY18: Rs. 33.0m; FY17: Rs. 39.6m). Over the last three fiscal years, equity brokerage revenue primarily emanated from retail clients (99%) in FY19). However, with addition of new clients in 1HFY20, institutional income was reported at Rs. 0.1m during the period. During January to February, institutional income increased to Rs. 0.8m while during 1st March to 5th March, it increased to Rs. 1.7m. Profitability is supported by dividend income amounting to Rs. 6.3m (FY18: Rs. 5.8m) in FY19.

With higher expenses and lower brokerage income, operating profitability (recurring income net of administrative expenses and finance cost) decreased to Rs.85.0m (FY18: Rs. 99.9m) in FY19. Efficiency ratio improved to 31.9% (FY18: 20.8%). Profit before tax declined to Rs. 83.7m (FY18: Rs. 103.6m) in FY19.

Going forward, company's strategy is to continue focus on acquiring business from institutional clients. Moreover, the company projects to earn income from underwriting and corporate advisory. For same purpose, the company has hired resources and plans to establish an office in Karachi. Diversification of business activity will be crucial in sustaining a more robust earnings base, thereby offsetting downside risk emanating from the investment portfolio and providing support to the company's overall risk profile.

Capitalization profile is adequate.
At end-1HFY20, total equity was reported Rs. 427.8m (FY18: 407.3m). In order to grow equity, the management plans to limit dividend payout over the rating horizon. Debt comprises bank overdraft and stood at Rs. 1.8m (FY18: Rs. 114.2m) at end-FY19 and Rs. 178.7m at end-1HFY20. The company has RF lines from four banks with total limit of Rs. 350m. The RF lines are collateralized by Rs. 180m worth of personal property owned by Mr. Muhammad Shahid. Gearing and leverage were reported at 0.41x and 0.62x at end-1HFY20.

Market, credit and liquidity risks are considered manageable.
Market Risk: GSPL maintains an investment portfolio amounting to FY19: Rs. 418.7m (FY18: Rs. 143.2m) as at end-FY19. It features primarily ready-future arbitrage transactions. With respect to ready future arbitrage, given that shares are bought in ready and simultaneously sold in future market, there is limited market risk. Moreover, given that the National Clearing Commission of Pakistan Limited (NCCPL) acts as clearing house for both, ready and future transactions, settlement risk is limited.

Credit Risk: GSPL has adequate due diligence procedures and policies available in addition to mechanism of clients' credit analysis. Applicable policies for leveraged products have been adopted and limits have been defined which are strictly monitored. Receivables from customers stood at Rs. 4.3m at end-FY19 and their ageing is considered to be manageable.

Liquidity Risk: Liquid assets in relation to total liabilities were adequate at 83.6% (FY18: 76.7%) at end-FY19. Accordingly, liquidity risk is manageable.

Growth Securities (Private) Limited Appendix I

FINANCIAL SUMMARY				(amounts in PKR millions)
BALANCE SHEET	**FY17**	**FY18**	**FY19**	**1HFY20**
Trade Debts	23.4	27.2	4.3	26.9
Advances, deposits and prepayments	373.6	276.5	292.8	225.8
Short Term Investments	111.3	214.4	143.2	418.7
Cash and bank balances	32.4	12.1	10.2	8.3
Property and Equipment	1.9	12.5	9.2	9.6
Total assets	563.7	557.4	475.5	694.7
Short term borrowings (Bank Overdraft only)	44.9	114.2	1.8	178.7
Total debt	44.9	114.2	1.8	178.7
Long term Interest Free Subordinated Sponsor Loan	115.4	115.4	115.4	92.8
Short term Sponsor Loan	122.5	52.7	57.7	78.0
Creditors, accrued and other liabilities	33.6	12.8	8.7	10.2
Total Liabilities	316.4	295.1	183.6	359.7
Paid up capital	100.0	100.0	100.0	100.0
Total equity (including Long Term Sponsor Loan)	362.7	377.8	407.3	427.8
INCOME STATEMENT	**FY17**	**FY18**	**FY19**	**1HFY20**
Equity brokerage commission	39.6	33.0	26.3	3.8
Unrealised loss on revaluation of held for trading sec	(7.7)	3.6	(1.3)	(4.7)
Gain on sale of securities - net	113.8	84.1	87.4	60.6
Dividend income	4.4	5.8	6.3	5.3
Other Income	57.1	3.4	4.9	2.6
Total Revenue	207.2	129.8	123.5	67.6
Administrative expenses	22.5	23.4	36.1	21.5
Financial charges	4.7	2.9	3.7	0.9
Profit Before Tax	180.1	103.6	83.7	45.3
Taxation	10.9	58.6	1.5	1.2
Profit After Tax	169.2	44.9	82.2	44.1
RATIO ANALYSIS	**FY17**	**FY18**	**FY19**	**1HFY20**
Liquid Assets to Total Liabilities (%)	45.4%	76.7%	83.6%	118.7%
Liquid Assets to Total Assets (%)	25.5%	40.6%	32.3%	61.5%
Current Ratio(x)	2.7	3.0	6.6	2.5
Leverage (x)	0.55	0.48	0.17	0.62
Gearing (x)	0.12	0.30	0.00	0.41
Efficiency (%)	12.6%	20.8%	31.9%	30.9%
ROAA (%)	NA	8.0%	15.9%	15.1%
ROAE (%)	NA	12.1%	20.9%	21.1%

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.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Growth Securities (Private) 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				
19/5/2020	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.
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due diligence meetings with	Mr. Adnan Mr. Muhammad Shahid – CEO Mr. Ghufran Khan – Head of Corporates Finance