RATING REPORT

Growth Securities (Private) Limited

REPORT DATE:
May 21, 2021

RATING ANALYSTS:

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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	***21/5/2021***		***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 (July 2020)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/SecuritiesFirm202007.pdf

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. Key shareholders in the company include Mr. Muhammad Shahid (51%) and Mr. Muhammad Iqbal (49%). GSPL's organizational structure comprises 9 departments, with all heads reporting to the Chief Executive Officer (CEO).

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 251 as at end-December 2020. GSPL has added 29 institutional clients since FY19.

Number of Clients	FY18	FY19	FY20	1HFY21
Domestic Institutional	6	6	30	37
Domestic Individual	298	228	206	214
Total Clients	**304**	**234**	**236**	**251**

Sector Update

- After a dismal performance in FY18 & FY19, volumes of PSX rebounded with an increase of 32% in FY20, while further gaining momentum in 1HFY21 (up by 1.48x Y/Y).
- This increase in trading volumes was mainly due to better macro-economic prospects, lower interest rates and Covid-19 induced uncertainty.
- Parallel to trading volumes, revenue of the brokerage companies has increased during the period.

Table 1: Industry Trading Metrics (Volume & Value)

	FY18	FY19	FY20	1HFY20	1HFY21
Volume (In Billions)	43	37	49	23	57
Value (In PKR' Billions)	2,027	1,549	1,789	820	2,118

- During the recent past, there have been some new regulatory developments in the brokerage industry, which are expected to stimulate growth going forward.
  - SECP has made capital market reforms wherein differentiation has been created between larger and smaller-sized brokerage companies; accordingly, going forward, smaller-sized companies would be converted into trading companies, not being entitled to custody of customer assets.
  - Trading commissions have been revised with SECP prescribing a floor of 3 paisa (or 0.15% of traded value) and a ceiling of 2.5% of traded value. This will allow standardization of brokerage commissions and quality control.
  - PSX has also launched two Exchange Traded Funds (ETF's) and a Murabaha Share Financing (MSF), which will allow investors to invest their funds in managed schemes, with lower management fee relative to mutual funds.
  - PSX & SECP have introduced an alternative board namely Growth Enterprise Market (GEM) which will encourage small companies to get listed on PSX. This should support the growth in new listings going forward.
  - Moreover, SECP has simplified the account opening process and allowed the brokers to complete the process online.
  - Growth in overall economic indicators and the majors taken by SECP & PSX to boost investors' confidence is likely to support trading activity on PSX during the medium term horizon.

Key rating drivers:

Rating is supported by the continuity and stability in revenue stream and overall profitability; however there is room for diversification of the topline, when viewed in relation to peers.

Table 2: Revenue Mix (In %'s)

	FY18	FY19	FY20	H1'FY21
Total Revenue (Mn.)	**129.8**	**123.5**	**142.9**	**131.6**
Equity Brokerage	25%	21%	7%	8%
Underwriting	-	-	-	1%
Ready Future	65%	71%	86%	81%
Dividend	4%	5%	4%	2%
Others	5%	3%	3%	8%

- Unlike other brokerages, ready future arbitrage is the core business of GSL remains the primary revenue source, contributing an **average of 74%** of the total revenue during the last 3-year period (2018-20).
- 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 clientele. Moreover, the company has recently started to diversify its topline by entering into the underwriting business.
- During FY20, brokerage revenue witnessed a significant drop (declining from 21% to 7% of total revenue), on account of a decline in sales from domestic individual customers, as the focus shifted more towards ready future segment.
- GSPL has recently started diversifying its brokerage revenue with a focus on domestic companies, which contributed 30% of the brokerage revenue during H1'FY21. Traditionally, GSPL was only earning brokerage income from individuals.
- For this purpose, the company has increased its domestic company's clientele to 37, from 6 clients in FY19, and continuing their effort to expand more in this segment.
- GSPL has hired a resource for underwriting and corporate advisory and started diversifying its revenue through underwriting income in H1'FY21. The management is actively working to grow this revenue.
- Overall revenue of GSPL grew by 16% Y/Y in FY20 and 95% in H1'FY21 vis-à-vis SPLY. The management projects revenue growth for FY21 to come in at 40%.
- 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. So far, the company has made headway in creating new revenue streams, albeit there is room for further diversification of the topline, when viewed in relation to peers.

Table 3: P&L Extract (In Mn.)

	FY18	FY19	FY20	1HFY21
Total Revenue	129.8	123.5	142.9	131.6
Operating Expenses	23.4	36.1	42.5	21.8
Financial Charges	2.9	3.7	2.2	1.1
Profit before Tax	103.8	83.7	98.3	108.7
Profit after Tax	44.9	82.2	96.7	108.6
Efficiency (%)	***20.8%***	***31.9%***	***30.5%***	***18.2%***

- Amidst growth in overall revenue with a drop in financial charges, PBT grew by 17% in FY20 and 1.4x YoY in H1'FY21. PBT growth for FY21 is expected to come in at around 40%.
- Efficiency ratio of the company remained intact at same levels in FY20. Given revenue base growth noted in H1'FY21, efficiency ratio is expected to post improvement and come in at ~25%. Given the fact that GSL mainly earns from ready future arbitrage, wherein

infrastructure related fixed cost is low vis-à-vis traditional brokerage business, the company's efficiency ratio compares favorably to peers.

Capitalization profile is adequate

- Equity base of the company grew at a CAGR of 22% in the last 3½ year period (Jun'17-Dec'20).
- Dividend paid during FY20 was restricted to Rs. 1mn vis-à-vis Rs. 52.6mn in FY19. In order to support the capital base, there are no dividend payout plans during the rating horizon.
- However, during the 1½ year period (Jun'19-Dec'20), the company repaid short term loan from directors amounting to Rs. 57.7mn, while long term loan from directors declined by Rs. 22.6mn in FY20.
- Gearing and leverage ratio elevated to 0.24x and 0.54x as at Dec'20 due to significant hike in bank overdrafts and decrease in equity due to decline in long term loan from directors, which had been taken as equity in VIS calculations.
- We foresee these ratios to further increase, but stay at manageable level, on account increase in working capital requirements in line with business growth.

Market, credit and liquidity risks are considered manageable

Market Risk: GSPL maintains a proprietary book amounting to Rs. 590.6mn as at Dec'20. (Jun'20: 350.1mn, Jun'19: 143.2mn). This converts into 72% of the total assets and 100% of the total equity which depicts a high market exposure. As per management, these short term investments do not reflect any market risk on the books of the company, as price risk of the same is already shed given that these are committed to be delivered at the pre-agreed price, as per the future contract and in line with ready future arbitrage mechanism.

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, are adequate at 192% as at Dec'20 (Jun'20: 168%, Jun'19: 84%, Jun'18: 77%). Note that the ST Investments have already been sold in future market but reflect in the assets on the balance sheet till the company receives the amount of those shares at a future settlement day.

Growth Securities (Private) Limited — Appendix I

FINANCIAL SUMMARY			(amounts in PKR millions)	
BALANCE SHEET	**Jun'18**	**Jun'19**	**Jun'20**	**Dec'20**
Trade Debts	27.2	4.3	28.2	48.8
Advances, deposits and prepayments	276.5	292.8	180.1	120.1
Short Term Investments	214.4	143.2	350.1	590.6
Cash and bank balances	12.1	10.2	11.6	19.9
Property and Equipment	12.5	9.2	28.1	29.4
Total assets	557.4	475.5	603.1	814.8
Short term borrowings (Bank Overdraft only)	114.2	1.8	71.2	142.2
Total debt	114.2	1.8	71.2	142.2
Long term Interest Free Subordinated Sponsor Loan	115.4	115.4	92.8	92.8
Short term Sponsor Loan	52.7	57.7	41.5	-
Creditors, accrued and other liabilities	12.8	8.7	10.0	83.7
Total Liabilities	295.1	183.6	215.5	318.6
Paid up capital	100.0	100.0	100.0	100.0
Total equity (including Long Term Sponsor Loan)	377.8	407.3	480.4	589.0
INCOME STATEMENT	**FY19**	**FY20**	**H1'FY20**	**H1'FY21**
Equity brokerage commission	26.3	9.9	3.8	11.6
Unrealised loss on revaluation of held for trading sec	(1.3)	(3.5)	(4.7)	5.8
Gain on sale of securities – net (ready future income)	87.4	123.4	60.6	107.1
Dividend income	6.3	5.9	5.3	2.8
Other Income	4.9	7.2	2.6	4.3
Total Revenue	123.5	142.9	67.6	131.6
Administrative expenses	36.1	42.5	21.5	21.8
Financial charges	3.7	2.2	0.9	1.1
Profit Before Tax	83.7	98.3	45.3	108.7
Taxation	1.5	1.6	1.2	0.2
Profit After Tax	82.2	96.7	44.1	108.6
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**1HFY21**
Liquid Assets to Total Liabilities (%)	76.7%	83.6%	167.9%	191.6%
Liquid Assets to Total Assets (%)	40.6%	32.3%	60.0%	74.9%
Current Ratio(x)	2.95	6.61	4.65	3.46
Leverage (x)	0.78	0.45	0.45	0.54
Gearing (x)	0.44	0.15	0.23	0.24
Efficiency (%)	20.8%	31.9%	30.5%	18.4%
ROAA (%)	8.0%	15.9%	17.9%	30.3%*
ROAE (%)	12.1%	20.9%	21.8%	40.2%*

**Annualized*

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	
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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Due diligence meetings with	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
21/05/2021	A-	A-2	Stable	Reaffirmed
19/5/2020	A-	A-2	Stable	Initial

Due diligence meetings with:

Name	Designation	Date
Mr. Zeeshan	Director	April 1' 2021