RATING REPORT

Growth Securities (Private) Limited

REPORT DATE:
May 09, 2022

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	***21/4/2022***		***21/5/2021***	
Rating Action	**Reaffirm**		**Reaffirm**	

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 2020)
http://vis.com.pk/kc-meth.aspx

Growth Securities (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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

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.

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%).

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 307 as at end-December 2021. However, only around one-fifth of the clients are active with respect to trading activity.

Number of Clients	FY19	FY20	FY21	1HFY22
Domestic Institutional	6	30	39	42
Domestic Individual	228	206	237	254
Total Clients	**234**	**236**	**286**	**307**

Sector Update

- After a dismal performance in FY18 & FY19, volumes of PSX started to rebound with an increase of 23.6% in FY20, followed by historically high volumes in FY21. This increase in trading volumes was mainly due to better macro-economic prospects and lower interest rates.
- The increasing trend in volumes did not sustain in H'FY22 as the all share market volumes witnessed a drop of 25% as compared to SPLY. The lack of positive triggers, uncertainty on macro-economic front and global commodity price hike were some of the reasons, which kept the investors at bay.
- Increased underwriting activity was also noted, with Initial Public Offerings (IPOs) being concluded in FY21, raising a sum of Rs. 14b, which was the highest sum mobilized by corporates in 14 years, with the previous best being 12 transactions in FY07. Inclusive of debt issuances, total capital raised during FY21 amounted to Rs. 31b.
- With Pakistan's financial markets still being in their early stages - as derived from market depth and dearth of active investors – the brokerage industry is ripe for dynamic regulatory changes. SECP's regulatory changes, such as the standardization of brokerage commission slabs and division of brokerage industry by size with small-sized brokerage houses being prohibited from taking custody of client assets, were key measures towards industry growth. Additionally, SECP has digitized the account opening process thus facilitating individuals to open accounts online.
- PSX and NCCPL has launched several Exchange Traded Funds (ETFs) and Murabaha Share Financing (MSF) respectively, allowing consumer access to additional investment products at a lower asset management cost, along with access to credit. PSX & SECP has also introduced an alternative board namely Growth Enterprise Market (GEM), for listing of small companies.
- Going forward, given challenging macro-economic situation in the country, investor activity at the PSX is expected to remain dull at least in the medium term.

Key rating drivers:

Ratings incorporate unique business model of the Company. Concentration in ready future business entails low market risk exposure, however revenue diversification remains limited.

Table 2: Revenue Mix (In %'s)

	FY19	FY20	FY21	H1'FY22
Total Revenue (Mn.)	**123.5**	**142.9**	**272.9**	**45.1**
Equity Brokerage	21%	7%	9%	26%
Underwriting	-	-	2%	9%
Ready Future	71%	86%	77%	51%
Dividend	5%	4%	3%	2%
Others	3%	3%	10%	11%

Unlike other brokerages, ready future arbitrage is the core business of GSPL and remains the primary revenue source, contributing an average of 70% of the total revenue during the last 3-year period. Although ready future arbitrage is expected to remain the mainstay business, the Company plans to grow in advisory business given adequate mandates in the pipeline and has hired resources for the same. The net underwritten commission amount stood at Rs. 5.6m in FY21 and Rs. 4.1m at end Dec'21. Within equity brokerage commission, more than two-third of the commission is derived from individual clients, followed by corporates (one-tenth) and remaining emanate from in-house investment.

During FY21, income from brokerage commission and ready future business generated significant growth given higher investor activity and positive market sentiment amid dovish monetary policy. The Company posted revenue to the tune of Rs. 272.9m in FY21, reflecting robust growth of 91.5%. However, trend reversed in the ongoing year with the onset of monetary tightening, global surge in commodity prices and supply chain imbalance with re-opening of economies post ease in covid-19 led disruption. Given dull investor sentiments and subdued volumes, GSPL posted a significant dip in income from ready future at Rs. 22.8m (HFY21: Rs. 107.1m) and thereby profit reduced to Rs. 18.1m (HFY21: Rs. 107.5m) in HFY22. The efficiency ratio depicts weakening as at Dec'21 due to subdued recurring income and is expected to stay at the lower end.

The business model of GSPL parallels fixed income instrument trading pattern and is devoid of market based risk. However, given limited volumes in the equity market, business turnover is likely to be impacted. Hence, profitability of the Company is expected to come under pressure in the medium term.

Financial risk indicators remain sound

Market Risk:
GSPL maintains a proprietary book amounting to Rs. 238.5m as at Dec'21 (Jun'21: Rs. 392.9m). These short term investments do not reflect any market risk on the books of the Company, as price risk of the same is shed already 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. Nevertheless, a certain amount of settlement risk prevails, enormity of which is nominal.

Credit Risk: GSPL has adequate due diligence procedures and policies available in addition to mechanism of clients' credit analysis. Receivables from customers stood at Rs. 110.2m (FY21: Rs. 52.3m) at end-Dec'21 out of which Rs. 88.8m are receivables against margin finance. The aging of receivables is considered manageable.

Liquidity Risk: Liquid assets in relation to total liabilities, are sound at 332.9% as at Dec'21 (Jun'21: 304.9%). 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.

Ratings take note of conservative financial policy stance and sponsor support.

Equity base of the Company slightly inched down to Rs. 455.8m as at end Dec'21 (FY21: Rs. 460.1) incorporating unrealized loss on revaluation of investment. Unlike past few years, the Company did not disburse any dividend during FY21 and does not foresee any dividend payout in near future as well, in order to support capital base. The management follows a conservative financial policy with minimal bank borrowings carried on the balance sheet. Around three-fourth of the borrowings of the Company are in the form of Director's loan. Incorporating for same, the leverage and gearing indicators come low at 0.22x (FY21: 0.32x) and 0.2x (FY21: 0.2x), respectively as at end Dec'21. Net capital balance has increased on a timeline and stood higher at Rs. 398.2m (FY21: Rs. 356.4m) at end Dec'21.Maintaining capitalization indicators within manageable levels will be important for ratings.

Growth Securities (Private) Limited — Appendix I

FINANCIAL SUMMARY (amounts in PKR millions)	Appendix I			
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**HFY22**
Property, Plant & Equipment	9.2	28.1	37.6	66.3
Trade Debts	4.3	28.2	52.3	110.3
ST Investments	143.2	350.1	402.9	238.5
Cash and Bank balances	10.2	11.6	33.3	49.6
Total Assets	475.5	603.1	727.3	669.8
Trade and Other Payables	8.7	10.0	37.4	28.4
Sponsors' Long Term Loans	115.4	92.8	92.8	92.8
Short Term Borrowings	59.5	112.7	137.0	92.7
Paid Up Capital	100.0	100.0	100.0	100.0
Total Equity	291.9	387.6	460.1	455.9
INCOME STATEMENT				
Total Revenue	123.5	142.9	272.9	45.1
Brokerage Income	*26.3*	*9.9*	*29.6*	*16.0*
Gain on sale of Securities-ready future income	*87.4*	*123.4*	*209.1*	*22.8*
Dividend income	*6.3*	*5.9*	*8.3*	*1.4*
MFS Income	*0.8*	*1.0*	4.1	*2.7*
Other Income	*2.7*	*2.6*	*21.9*	*2.2*
Administrative Expenses	36.1	42.5	55.0	25.8
Finance Cost	3.7	2.2	2.2	0.3
Profit Before Tax	83.7	98.3	215.7	19.0
Profit After Tax	82.2	96.7	210.4	18.1
RATIO ANALYSIS				
Liquid Assets to Total Liabilities (%)	328.4%%	312.4%	304.9%	332.9%
Liquid Assets to Total Assets (%)	47.1%	63.5%	73.1%	60.2%
Leverage (x)	0.17	0.26	0.32	0.22
Gearing (x)	0.1	0.2	0.2	0.2
Current Ratio (x)	6.6	4.6	3.9	4.9
Adjusted Efficiency (%) **	46.0%	51%	36.7%	81.9%
ROAA (%)	15.9%	17.9%	31.6%	5.2%*
ROAE (%)	20.9%	28.5%	49.6%	7.9%*

*annualized
** Weightage of 50% is given to capital gains-ready future income

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				
10/05/2022	A-	A-2	Stable	Reaffirmed
21/05/2021	A-	A-2	Stable	Reaffirmed
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.
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Due diligence meetings with

Name	Designation	Date
Mr. Zeeshan	Director	Feb 23' 2022