

RATING REPORT

Growth Securities (Private) Limited

REPORT DATE:

October 07, 2024

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/Rating Watch	Stable		Negative	
Rating Date	07/10/2024		13/6/2023	
Rating Action	Maintained		Maintained	

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 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>

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%).

Sector Update

During FY24, PSX achieved the highest equity market performance globally, with its KSE-100 Index soaring to 78,444.96, a significant increase from 41,452.69 in FY23. The index recorded an impressive annual return of 89% in PKR terms and 94% in USD terms, led by appreciation of the Pakistani Rupee against the US Dollar. The surge was driven by improved economic indicators such as increased exports and remittances, a notable decline in inflation, and favorable political and financial developments, including the successful completion of the IMF Stand-by Agreement and a smoother transition of government.

Going forward, it is expected that the positive growth momentum will likely continue into FY25, supported by expected earnings growth and the prospect of a new Extended Fund Facility (EFF) with the IMF. The IMF program is expected to further boost market momentum and attract foreign inflows, improving Pakistan's external financial position. However, potential risks, including unexpected devaluation of the PKR and adverse changes in international oil prices, could pose challenges. Consecutive policy rate cuts with expectations of further decline in interest rates is likely to support market volumes.

Table 1: Industry Trading Metrics – KSE 100 All share

	FY19	FY20	FY21	FY22	FY23	FY24
Volume (In Billions)	37	49	131	73	47	112
Value (In PKR' Billions)	1,549	1,789	4,781	2,406	1,504	3,796

Key rating drivers:

Assigned ratings take into account improvement in the profitability of the Company

Table 2: P&L Statement (Extract)

Figures in PKR' Millions	FY22	FY23	FY24*
Total Revenue	87.6	37.4	158.1
- Commission Income	22.0	24.1	37.2
- Underwriting Commission	50.1	0.7	3.8
- Dividend Income	4.2	6.1	11.5
- Capital Gain – ready future income	(16.7)	(80.5)	89.3
- Other income	11.3	7.1	16.2
Operating Expense	70.7	79.6	88.9
- Administrative Overheads	69.4	77.1	84.3
Adjusted Efficiency**	79.2%	206.2%	68.3%
Gain on Re-measurement of Investments	(18.8)	(6.3)	2.6
Profit/(Loss) After Tax	(24.38)	(130.44)	71.83
ROAA	(3.3%)	(19.5%)	11.5%

ROAE	(4.7%)	(23.0%)	12.4%
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**Unaudited accounts*

*** Weightage of 60% given to ready future income*

- Owing to the favorable market conditions, the brokerage revenue of the Company recorded a strong growth of ~54% during FY24 relative to FY23. In addition, the Company remains active in the ready future transactions market and historically revenues have been generated from the same. However, the Company had to absorb losses against underwriting of Flying Cement shares, which remains undersubscribed. Consequently, revenues remained subdued in FY23 and only showing improvement in FY24.
- While the revenue mix is concentrated in ready future arbitrage and brokerage commissions, the company is actively working to diversify its revenue streams through underwriting and corporate advisory services. It has recently acquired a consultant-to-the-issue license to offer underwriting services, which is expected to augment its revenue base.
- Additionally, the Company has signed a few IPO mandates as well as others remain in pipeline which is expected to boost advisory income of the Company, going forward. A new Head of Investment Banking has been hired to support the advisory business.
- Amidst growth in overall revenue, operational efficiency witnessed a significant improvement in FY24.
- Consequently, profitability profile experienced a significant surge in FY24, reversing the negative bottom line reported in FY23.
- Going forward, increasing and diversifying revenue streams and curtailment of administrative expenses will remain important for enhancing the profitability profile of the Company.

Rating also considers financial risk indicators.

Liquidity Risk:

- Liquidity profile of the Company is considered sound, with liquid assets providing a sizeable coverage of 4.58x as at Jun'24 (June'23: 19.40x, June'22: 2.87x) against its total liabilities.
- Short term investment comprises of cash, investment in listed securities and NCCPL deposit.

Credit Risk:

- As at Jun'24, trade debts stood at Rs. 74.2 m (Jun'23: Rs. 64.5, Jun'22: Rs.37.7m), which comprises 8% of the total current assets. Credit risk of the Company is considered to remain manageable, given that 92.7% of the trade debts are outstanding for less than 14 days at end-Jun'24.

Market Risk:

- During the period, the Company's short-term investment increased to Rs. 340.m end-FY'24 (FY'23: Rs.291.1m), representing 52.8% of the total equity. Market risk remains manageable. Maintenance of the same will remain important.

Capitalization profile supported by unleveraged capital structure and sponsor support

- The unleveraged balance sheet of the Company provides support to the Company's capitalization profile. The debt of the Company consists of bank overdraft, which was reported at Rs. 47.8m as at June'24 (June'23: Rs. 0m, June'22: Rs. 159.1m). As such, the

gearing and leverage indicators of the Company were recorded at 0.08x and 0.13x (June'23: 0.00x and 0.03x, June'22: 0.28x and 0.32x) respectively.

- The equity base of the Company draws support from long term loans from sponsor, amounting to Rs. 217.3m as at June'24 (June'23: Rs. 255.8m, June'22: Rs. 139.9m). These loans are interest free and repayable at the discretion of the Company and therefore treated as equity for rating purposes. Resultantly, equity base of the Company stood at Rs. 594.8m (June'23: Rs. 561.1m, June'22: Rs. 575.6m) as at June 30, 2024. Going forward, continued availability of the sponsor support will remain important for the ratings.

Rating incorporates GSPL Corporate Governance framework

- Corporate governance framework is adequate however room for improvement exists. Increase in size of Board and inclusion of independent representation may further strengthen the governance framework.

Growth Securities (Private) Limited

FINANCIAL SUMMARY (amounts in PKR millions)		Appendix I		
BALANCE SHEET		<u>FY22</u>	<u>FY23</u>	<u>FY24*</u>
Property, Plant & Equipment		79.6	65.4	55.3
Trade Debts		37.7	64.5	74.2
ST Investments		496.4	291.1	340.9
Cash and Bank balances		84.7	20.8	30.3
Total Assets		757.9	576.8	672.3
Trade and Other Payables		23.2	15.7	29.7
Long Term Loans		0.0	0.0	0.0
Short Term Borrowings		159.1	0.0	47.8
Paid Up Capital		100.0	100.0	100.0
Total Equity		575.6	561.1	594.8
INCOME STATEMENT		<u>FY22</u>	<u>FY23</u>	<u>FY24*</u>
Total Revenue		87.6	37.4	158.1
<i>Brokerage Income</i>		22.0	24.1	37.2
<i>Underwriting Income</i>		50.1	0.7	3.8
<i>Gain on sale of Securities-ready future income</i>		-16.7	-80.5	89.3
<i>Dividend income</i>		4.2	6.1	11.5
<i>Other Income</i>		61.3	7.1	16.2
Administrative Expenses		69.4	77.1	84.3
Finance Cost		1.3	2.5	4.6
Profit Before Tax		(18.6)	(129.0)	71.8
Profit After Tax		(24.4)	(130.4)	71.8
RATIO ANALYSIS		<u>FY22</u>	<u>FY23</u>	<u>FY24*</u>
Liquid Assets to Total Liabilities (%)		287.2%	1939.6%	457.5%
Liquid Assets to Total Assets (%)		69.1%	52.9%	52.7%
Leverage (x)		0.32	0.03	0.13
Gearing (x)		0.28	0.00	0.08
Current Ratio (x)		3.70	31.01	7.66
Adjusted Efficiency (%)		79.2%	206.2%	68.3%
ROAA (%)		-3.2%	-19.5%	11.5%
ROAE (%)		-4.2%	-23.0%	12.4%

*Unaudited Accounts

**Weightage of 60% given to ready future income

Growth Securities (Private) Limited

REGULATORY DISCLOSURES				Appendix II	
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				
	07/10/2024	A-	A-2	Stable	Maintained
	13/06/2023	A-	A-2	Negative	Maintained
	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.				
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	Name	Designation	Date		
	Mr. Zeeshan	Director	Sept 10' 2024		
	Mr. Kamran	Compliance Officer	Sept 10' 2024		