

## RATING REPORT

### Multiline Securities Limited

**REPORT DATE:**

February 12, 2021

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Initial Rating	
	Long -term	Short -term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	February 11, 2021	

#### COMPANY INFORMATION

Incorporated on 19 <sup>th</sup> March, 2001	External auditors: <b>Rehman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants</b>
Public Limited Company	Chairperson of the Board: <b>Haji Masood Parekh</b>
Key Shareholders (with stake 5% or more):	Chief Executive Officer: <b>Mr. Muhammad Hanif</b>
- Muhammad Hanif - 100%	

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017)

<http://vis.com.pk/docs/Securities%20Firms%20201706.pdf>

**Multiline Securities Limited**

**OVERVIEW OF THE INSTITUTION RATING RATIONALE**

*Multiline Securities Limited (MSL) was incorporated in 2001 under the Companies Ordinance 1984 as a private limited company. The company through direct and beneficial ownership is owned by Mr. Muhammad Hanif Moosa Darwarwala.*

**Profile of Chairperson**

*Mr. Masood is a renowned businessman and competent Director & Chairman of Multiline Securities Limited. He has vast experience in the real estate market. Mr. Masood was Sole Proprietor at Multiline Estate in 2010.*

**Profile of CEO**

*Mr. Muhammad Hanif is well known in the business community. He was in the business of the brokerage industry since 1995. Mr. Muhammad Hanif is also director of Korangi Roller Flour Mills (Pvt) Ltd, Karachi Grains (Pvt) Ltd & Universal Terminal (Pvt) Ltd, and executes his responsibilities in respect of operations of the companies' strategies of expansion growth and budgetary measure. Mr. Muhammad Hanif has also vast experience in Pakistan's money market and real estate market.*

Multiline Securities Limited (MSL) is primarily engaged in provision of equity brokerage services catering to domestic retail and high net worth (HNWI) clients and local institutions. MSL's head office is situated at Clifton, Karachi, while MSL has another brand office at the Pakistan Stock Exchange (PSX) building in Karachi.

**Key Rating Drivers:**

**Commission income remains volatile in-line with equity market. Improved volumes of PSX strengthen brokerage income in FY20**

- In FY20, the stock market volumes improved, mainly on account of the index volatility experienced during the period.
- This led the overall PSX volume to clock in at 68,017Mn in FY20, up by 27% YoY.
- Resultantly, the brokerage industry benefitted from the improved brokerage income.

PSX Data (Ready + Future)	Volumes (m)	Value (m)
FY18	58,401	2,881,120
FY19	53,515	2,353,988
<b>% change in FY19</b>	<b>-8%</b>	<b>-18%</b>
FY20	68,017	2,551,578
<b>% change in FY20</b>	<b>27%</b>	<b>8%</b>

- MSL brokerage revenue stays volatile depends on the market volume as the company earned a commission income of Rs. 65.6mn in FY20 (FY19: 44.2mn) amid improved PSX volume.
- Commission income is the only source of core revenue for MSL as the company is not providing corporate advisory and investment banking or any other financial services. This remains the key risk for the company in terms of business perspective.

Total Revenue Breakup in %'s	FY16	FY17	FY18	FY19	FY20
Commission Income	80%	88%	79%	80%	88%
Dividend Income	20%	12%	21%	20%	12%

*\*The calculation includes the gross revenue figure before adjusting realized and unrealized gain/loss*

**Holding a market share of 3%, MSL can be categorized a small-sized brokerage house. Clientele is limited to local individuals and corporates.**

- MSL continues to maintain its market share at 3% during the past 3-year period (FY18-FY20) showing that the company is moving in tandem with Pakistan Stock Exchange, while keeping its market share intact.
- Retail clientele forms major portion of brokerage commission at an average of 79% in last 3 years (FY20: 86% retail concentration in total commission income).
- As of Jun'20, the company had a client base of 949.

No. of clients	Jun'18	Jun'19	Jun'20
Retail – High Net Worth	47	30	61
– Others	1,202	730	780
Corporate	81	101	100
House	5	7	8
Total	1,335	868	949

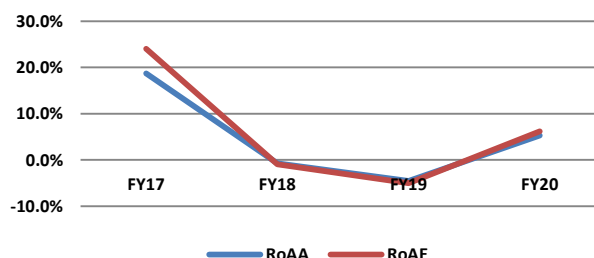
- At present, clientele is limited to local individuals and corporates. Albeit, there are long term plans to provide services to international clientele.
- Also, the company's operations are presently limited to brokerage. However, there are plans in place to corporate advisory & underwriting, going forward. Accordingly, the company lags in terms of topline diversity, at present.

**Profitability has depicted volatility over the past 5-year period in tandem with changes in industry volumes, and volatile investment performance**

	FY16	FY17	FY18	FY19	FY20
Commission Income	61,359	94,959	53,063	44,242	65,623
Dividend Income	15,621	12,584	13,709	11,341	9,161
<b>Operating Revenue</b>	<b>76,980</b>	<b>107,543</b>	<b>66,773</b>	<b>55,583</b>	<b>74,784</b>
Administrative Expenses	(48,934)	(63,757)	(48,291)	(38,897)	(42,143)
<b>Operating Income (before capital gain/loss)</b>	<b>28,046</b>	<b>43,786</b>	<b>18,481</b>	<b>16,686</b>	<b>32,641</b>
<b>Net Capital Gain/ (loss)</b>	<b>1,703</b>	<b>85,630</b>	<b>(23,373)</b>	<b>(72,954)</b>	<b>(4,198)</b>
- Capital (loss)/ gain on sale of securities	6,017	49,062	4,225	9,707	(22,060)
- Unrealized gain/ (loss) on measurement	(7,720)	36,567	(27,498)	(82,661)	17,863
<b>Operating Income (before capital gain/loss)</b>	<b>26,343</b>	<b>129,416</b>	<b>(4,792)</b>	<b>(56,268)</b>	<b>28,443</b>
<b>Finance Charges</b>	<b>(6,307)</b>	<b>(230)</b>	<b>(164)</b>	<b>(149)</b>	<b>(153)</b>
<b>Other Income</b>	<b>3,917</b>	<b>1,487</b>	<b>15,339</b>	<b>4,058</b>	<b>15,756</b>
<b>Other Charges</b>	<b>(10,676)</b>	<b>(2,500)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit Before Tax</b>	<b>13,277</b>	<b>128,173</b>	<b>10,384</b>	<b>(52,359)</b>	<b>44,046</b>
Tax	(9,767)	(17,632)	(15,288)	27,332	(13,636)
<b>Profit After Tax</b>	<b>3,510</b>	<b>110,541</b>	<b>(4,905)</b>	<b>(25,027)</b>	<b>30,410</b>

- The company's brokerage commission has depicted volatility, mainly resulting from the movement in market volumes. As a result of depressed market volumes an adverse investment performance, the company's bottom line went into the red for FY18 and FY19, albeit the same has been recouped in FY20.

- Risk to the company’s profitability profile emanates from the sizable proprietary portfolio of the company, which constitutes 39% of the company’s asset base as of Jun’20. The same has trended down from 63% in Jun’18.
- With profitability recovering in FY20, the RoAA & RoAE has improved, as reflected in the figure below.



**Unleveraged balance lowers the financial risk profile of MSL**

- Equity base of the company has grown from Rs. 392.8mn in FY16 to Rs. 507mn in FY20 in the absence of any dividend payout during the years.
- Gearing remained zero in the last 5 years including FY20 as company did not take any type of financing while leverage indicator stayed strong and standing at 0.24x as at FY20.
- Going forward, the company has no plans to take on additional debt.
- Proprietary book of MSL came at 39% of the total Equity as at Jun’20 (Jun’19: 54%).

**Liquidity risk is low in view of the working capital needs**

- Liquid assets of MSL stand at an average of Rs. 372 mn during last five years. In FY20, MSL closes the year with Rs. 405mn liquid assets, making it 65% of the total asset base. Liquid assets to total liabilities clocked in at 335% in FY20.
- Current ratio of the company stayed at an average of 6.30x in last 5 years. In FY20, current ratio declined to 4.77x from 10.48x times an year earlier due to an abnormal increase in trade and other payables at end FY20.

**Market risk is moderately high while credit risk is manageable**

- Market Risk: MSL maintains an investment portfolio managed by Investment Committee. However, the portfolio is sizable, vis-à-vis the company’s asset base. The risk is further indicated by the quantum of capital gains/losses on the portfolio, which average 19% of the company’s topline for past 5-year period (FY16-FY20), rising as high as 80% for FY19.
- Credit Risk: Credit risk on the entity is considered manageable. Receivables from customers stood at Rs. 16mn at end-FY20; of this, 81% of the receivables are outstanding in 0-3 months.

**Adequate Corporate Governance Infrastructure**

- Board of Directors at MRA comprises 3 members including CEO. Board is chaired by Mr Masood. In line with best practices, the Board also includes 1

independent director. There are plans in place to increase independent representation to 50% of the Board, with an approval for a newly inducted independent director, requested from the regulator.

- Other Board level committees include Board Audit Committee & Board Investment Committee. Minutes of other board level committees are documented. Financial statements are audited by Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants.
- Internal Audit is outsourced to an external firm.
- IT support related to infrastructure is provided by 'Vision Technologies', a third-party vendor. The company uses online trading platform called Wintrade being used by many of the other brokers and a designated mobile application as well for convenient trading of investors. Disaster recovery arrangements include two physical backups wherein one is in-house and the other is at different geographical location.

<b>BALANCE SHEET</b>	<b>30-Jun-18</b>	<b>30-Jun-19</b>	<b>30-Jun-20</b>
Trade Debts	11.5	8.4	12.7
Long Term Investments	21.4	14.1	-
Short term Investments	9.5	10.0	14.7
Cash and Bank balances	74.9	51.3	159.9
<b>Total Assets</b>	<b>530.4</b>	<b>491.8</b>	<b>576.0</b>
Trade and Other Payables	61.2	46.9	120.8
<b>Total Debt</b>	<b>0.9</b>	<b>-</b>	<b>-</b>
Paid Up Capital	100.0	100.0	100.0
<b>Net Worth (excluding revaluation surplus)</b>	<b>498.5</b>	<b>473.4</b>	<b>507.1</b>
<b>INCOME STATEMENT</b>	<b>30-Jun-18</b>	<b>30-Jun-19</b>	<b>30-Jun-20</b>
Total Revenue	66.8	55.6	74.8
Brokerage Income	53.1	44.2	65.6
Dividend Income	13.7	11.3	9.2
Operating Expenses	48.3	38.9	42.1
Finance Costs	(0.2)	(0.1)	(0.2)
<b>Profit Before Tax</b>	<b>10.4</b>	<b>(52.4)</b>	<b>44.0</b>
<b>Profit After Tax</b>	<b>(4.9)</b>	<b>(25.0)</b>	<b>30.4</b>
<b>RATIO ANALYSIS</b>	<b>30-Jun-18</b>	<b>30-Jun-19</b>	<b>30-Jun-20</b>
Liquid Assets to Total Liabilities (%)	634.2%	683.8%	335.0%
Liquid Assets to Total Assets (%)	72.5%	61.3%	64.5%
Leverage (x)	0.13	0.10	0.24
Gearing (x)	-	-	-
Current Ratio (x)	8.0	10.5	4.8
Efficiency (%)	72.3%	70.0%	56.4%
ROAA (%)	-0.8%	-4.6%	5.3%
ROAE (%)	-1.0%	-5.2%	6.2%

**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](http://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](http://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](http://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			
<b>Name of Rated Entity</b>	Multiline Securities Limited				
<b>Sector</b>	Brokerage				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	02/02/2020	A-	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Mr. Muhammad Aamir	COO/ Director	December 29, 2020		
	Mr. Rahib Madraswala	CFO/CCO			