RATING REPORT

Multiline Securities Limited

REPORT DATE:
April 14, 2022

RATING ANALYST:
Muhammad Tabish
muhammad.tabish@vis.com.pk

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	*April 14, 2022*		*Feb 12, 2021*	

COMPANY INFORMATION

Incorporated in 2001	**External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Unlisted Company	**Chairman:** Haji Masood Parekh
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Hanif
Mr. Muhammad Hanif – 99.99%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/SecuritiesFirm202007.pdf

Multiline Securities Limited (MSL)

OVERVIEW OF THE INSTITUTION

Multiline Securities Limitied (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 Chairman

Mr. Masood is a renowned businessman with 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 has been in the brokerage industry business since 1995. Mr. 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. He also has vast experience in Pakistan's money market and real estate business.

RATING RATIONALE

Operating in the brokerage business for over two decades, Multiline Securities Limited (MSL) is currently engaged in provision of equity brokerage services to domestic retail, high net worth individuals (HNWI) and institutional clients. MSL is a family-owned private limited company which operates through its head office and a branch based in Karachi. Moreover, the management has planned to initiate corporate advisory & underwriting services in the ongoing year, developments in this regard are underway. At present, total staff strength stands at 55+ employees; of which 15 have been hired recently for research and corporate advisory function.

<u>Key Rating Drivers</u>

Growing trend of PSX volumes has not sustained in the ongoing fiscal year due to lack of positive triggers.

After a dismal trading performance during the period FY17-19, volumes of PSX started to rebound with an increase of ~32% in FY20, followed by historically high volumes in FY21, up by ~144%. Nonetheless, the increasing trend in volumes did not sustain in 6M'FY22 as the all share market volumes witnessed a drop of 21% vis-à-vis SPLY. The lack of positive triggers, uncertainty on macro-economic front and global commodity price hike are some of the reasons which have kept investors at bay. Accordingly, in tandem with trading volumes, brokerage revenues have witnessed a slight decline across the industry in the ongoing fiscal year.

Table: Industry Trading Metrics

PSX Data (Ready + Future)	FY18	FY19	FY20	FY21		6M'21	6M'22
Volume (In Billions)	58	55	68	166		74	59
Value (In Billions)	2,874	2,224	2,570	6,919		2,930	2,247

The volumes are expected to exhibit some growth going forward given the prevailing political uncertainty and economic issues in the country. However, the value of shares traded will continue to remain on the lower side.

Steps taken by SECP & PSX seem to be supportive with respect to ease of doing business and will boost investors' confidence.

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 steps towards industry growth. It has also facilitated in promotion of healthy competition and supported profitability profile of the brokerage sector.

Other productive measures include digitization of account opening process by SECP, streamlining KYC & AML compliance regulations and the launch of several Exchange

Traded Funds (ETF's) and Murabaha Share Financing (MSF) by PSX, which allows investors access to lower cost asset management 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, the steps taken to boost investors' confidence would reflect in the trading activity on PSX in the medium term.

Market share has sustained; retail client base has witnessed a healthy growth over the years.

MSL is a small-sized brokerage company, holding ~3% market share, in terms of ready/future trading volumes which has been sustained over the last four years. Retail clientele forms the major proportion (~90%) of brokerage revenue while the remaining is shared by domestic institutional business. Since last review, sizeable new clients have been taken onboard in both retail and corporate segments. Given adequate granularity in retail base, client exposures are fragmented and concentration risk is moderate. Going forward, the management is focused towards revenue diversification and enhancement of research services in order to improve customer facilitation.

Table: Client Base

No. of active clients	FY20	FY21	HFY22
House	8	10	11
Retail/ Individuals	841	1,075	1,146
Domestic Institutions	100	111	126
Total	**949**	**1,196**	**1,283**

Around 70% of the brokerage business is generated through head office while the remaining is contributed by the branch. The total volumetric share turnover is shared equally by offline and online clients.

Re-measurement gains on investments significantly supported the earnings profile in FY21. Lack of diversification in revenues and sizeable propriety book remains a rating constraint.

At present, the company lags in terms of topline diversity with brokerage revenue constituting ~90% of recurring revenue base which remains a business concentration risk. The remaining revenue is contributed by dividend income. Total recurring revenue was reported at Rs. 67.7m (FY21: Rs. 153.7m; FY20: Rs. 74.8m) in 6M'FY22.

On the cost front, administrative expenses in line with the growth in revenues have witnessed a sizeable jump on account of significant increase in services and transaction charges and salaries expenses. Despite higher recurring income, the company's cost-income ratio depicted slight weakening to 68.6% (FY21: 57.5%) which is on the higher side vis-à-vis peers. Furthermore, gain on re-measurement of investments significantly supported the profitability in FY21; however, remains absent in the ongoing year. Going forward, given that the company maintains a sizeable propriety book, financial performance would remain sensitive to the vagaries of local stock market and is subject to risks associated with it.

Sound liquidity profile; market risk remains high on account of sizeable short term investments.

Given higher liquidity on balance sheet which is mainly being maintained in the form of short term investments and cash & bank balance (three-fifth of total asset base), liquid assets coverage of total liabilities is considered strong. Credit risk is considered manageable given that 87% of the trade debts are outstanding for less than 90 days. Moreover, MSL 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.

MSL maintains a sizeable investment portfolio managed by the Investment Committee. Market risk emanating from the same is on the higher side as evident from high equity investments in relation to equity (50% at end-HFY22). The existing portfolio depicts adequate diversification and ~15% of the investment portfolio pertains to the ready-future arbitrage transactions.

Low-leveraged capital structure provide comfort to the ratings.
Equity base has increased to Rs. 649.2m (FY21: Rs. 669.8m; FY20: Rs. 507.1m) as at end-6M'FY22 in the absence of any dividend payout since incorporation. In FY21, the company utilized short-term financing of Rs. 22.3m due to which the gearing was reported at 0.03x. The same has reduced to nil in the ongoing fiscal year; management plans to remain debt averse going forward. Leverage indicator stayed strong and standing at 0.31x (FY21: 0.27x; FY20: 0.24x) as at end-6M'FY22.

Corporate governance framework has room for improvement.
Board of Directors (BoD) comprises 3 members including the CEO and one independent director, in line with best practices. Other board level committees include Board Audit Committee & Board Investment Committee; minutes of the meetings are formally documented. Room for improvement exists in terms of board size to avoid repetition of common committee members. Senior management team comprises professionals having long standing association with the industry.

IT support related to infrastructure is provided by 'Vision Technologies', a third-party vendor. Disaster recovery measures are in place. Internal audit and compliance departments are outsourced. Financial statements are audited by Rahman Sarfaraz Rahim Iqbal Rafiq, CA which is placed in 'Category A' of SBP's Panel of Auditors.

Multiline Securities Limited (MSL)

FINANCIAL SUMMARY (Rs. in millions)				Appendix I
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**HFY22**
Property, Plant & Equipment	10.0	14.7	37.5	49.2
Trade Debts	8.4	12.7	50.1	40.9
Receivables against MF	99.0	114.5	248.5	100.6
ST Investments	269.7	245.0	333.2	332.2
LT Investments	14.1	-	-	-
Cash and Bank balances	51.3	159.9	110.3	161.6
Total Assets	**523.6**	**627.9**	**850.0**	**852.6**
Trade and Other Payables	46.9	120.8	157.8	103.2
Short Term Borrowings	-	-	22.3	-
Total Liabilities	**46.9**	**120.8**	**180.2**	**203.3**
Paid up Capital	100.0	100.0	100.0	100.0
Retained Earnings	373.4	407.1	569.8	543.1
Total Equity	**476.7**	**507.1**	**669.8**	**649.2**
INCOME STATEMENT				
Recurring Revenue	**55.6**	**74.8**	**153.7**	**67.7**
Brokerage Income	44.2	65.6	138.1	57.0
Dividend income	11.3	9.2	14.9	10.7
IPO Commission	-	-	0.6	-
Recurring Expenses	**(38.9)**	**(42.1)**	**(88.7)**	**(46.4)**
Capital (loss)/ gain on investments	9.7	(20.3)	62.3	1.7
Unrealized (loss)/ gain on investments	(82.7)	17.9	51.2	-
Finance Cost	(0.1)	(0.2)	(0.4)	(0.1)
Profit/(Loss) Before Tax	**(52.4)**	**44.0**	**182.9**	**24.3**
Profit/(Loss) After Tax	**(25.0)**	**30.4**	**162.7**	**24.3**
RATIO ANALYSIS				
Liquid Assets to Total Liabilities (%)	683.8%	335.0%	246.1%	242.9%
Liquid Assets to Total Assets (%)	61.3%	64.5%	52.5%	57.9%
Current Ratio (x)	10.5	4.8	4.5	3.8
Leverage (x)	0.10	0.24	0.27	0.31
Gearing (x)	-	-	0.03	-
Efficiency (%)	70.0%	56.4%	57.7%	68.6%
ROAA (%)	-4.6%	5.3%	22.0%	5.7%
ROAE (%)	-5.1%	6.2%	27.6%	7.4%

ISSUE/ISSUER RATING SCALE & DEFINITION 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	Multiline Securities Limited (MSL)
Sector	Brokerage Industry
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 Meeting Conducted	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
14-Apr-22	A-	A-2	Stable	Reaffirmed
12-Feb-21	A-	A-2	Stable	Initial

Due Diligence Meeting Conducted:

Name	Designation	Date
Mr. Rahib Madraswala	CFO/COO	April 1, 2022
Mr. Shahid	Finance Manager	