

RATING REPORT

Multiline Securities Limited

REPORT DATE:

 November 6th, 2023

RATING ANALYSTS:

Dr. Jahanzaib Alvi

jahanzaib.alvi@vis.com.pk

Shaheryar Khan

shaheryar@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	November 6, 2023		April 14, 2022	

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
<i>Mr. Mubammad Hanif – 99.96%</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Securities Firms (July 2020)
<https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf>
VIS Rating Scale
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Multiline Securities Limited (MSL)

OVERVIEW OF THE INSTITUTION

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 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.

Sector Update

Table 1: Industry Trading Metrics (Volume & Value) – Ready

	FY18	FY19	FY20	FY21	FY22	FY23
Volume (In Billions)	43	37	49	131	73	47
Value (In PKR' Billions)	2,027	1,549	1,789	4,781	2,405	1,504

- During FY22, the brokerage sector faced significant challenges due to the poor overall economic situation, a global decline in commodity prices, and political uncertainty. As a result, investor's confidence was greatly impacted.
- After witnessing a significant surge in trading volumes in FY21, volumes have depicted a downward trajectory wherein the trading volumes declined by around 44% in FY22, followed by a further decline of around 35% in FY23.
- Accordingly, in tandem with trading volumes, brokerage revenues declined across the industry. This has dented the profitability of brokerage companies, some of which have slipped into losses. Additionally, low volume of IPOs resulting in reduced underwriting activity during FY22 also contributed to loss of revenue, during the year only three IPOs occurred raising a total of Rs.1.3b which is considered low as compared to FY21 whereby eight IPOs were witnessed raising over Rs.20.0b.
- Recently PSX has launched a new technologically advanced trading platform, called Designated Time Schedule (DTS), replaced by the old trading platform (KATS/Karachi Automated Trading System) due to hardware and software mismatch. The new system is expected to improve security features to better safeguard investors' data and resolve complaints about data leakages and theft.
- In order to further facilitate brokerage houses and traders, PSX has planned to launch 15 new Trading Right Entitlement Certificates (TREC) licenses which is expected to bring ease for brokers fulfilling minimum financial requirements and to offer trade execution services to retail, institutional and foreign clients along with becoming underwriters for right shares issue and act as agents for share buybacks.

Key Rating Drivers

Overall operational profile of the Company witnessed deterioration owing to decline in market volumes

Operating Revenue Breakup	FY21	FY22	9MFY23
Brokerage Commission	138.1	87.3	51.4
Dividend Income	14.9	23.3	22.9
IPO commission	0.6	0.5	-
Total Operating Revenue	153.7	111.1	74.3
<i>Dividend income as % of total revenue</i>	<i>10%</i>	<i>21%</i>	<i>31%</i>

- In line with industry trend, wherein market volumes have contracted, MSL's operating profile also came under pressure during the year. At present, MSL's revenue mix remains dominated by core brokerage income. The same depicted decline on timeline basis, while no income was generated through IPOs, however, increase in dividend income provided comfort to the Company's operating profile to some extent.
- Going forward, management's strategy continues to remain focused in exploring new revenue streams through IPO engagement and acquiring advisory and research publication licenses.
- On the cost front operational efficiency was also impacted during the period under review. Cost to income ratio was reported to be 99% during FY22, majorly attributable to two-fold increase in salaries expenses and decline in recurring revenues.
- Going forward, management plans to augment revenue through increased focus on acquisition of institutional and retail clientele through enhancements in product offering including research services in order to improve customer facilitation.

Profitability Indicators (Rs. in m)	FY20	FY21	FY22	9MFY23
Total Recurring Expense	42	89	110	57
Operating Efficiency (%)	56.4%	57.7%	98.9%	77.2%
Net Income	30	163	(74)	42
ROAA	5%	22%	-9%	6%
ROAE	6%	28%	-12%	7%

Assigned ratings take note of Company's market positioning and growing client base

- The brokerage industry has witnessed substantial decline in volumes, however, MSL, despite being a small-sized brokerage company, has consistently held a market share of ~3%, in terms of ready/future trading volumes.
- During FY23, the Company's market share increased to 5.57% (FY22 4.5%, FY21 3.1%) Retail clientele forms the major proportion (~90%) of brokerage revenue while the remaining is shared by domestic institutional business.

(Ready + Future)	FY21	FY22	FY23
Market Share By Volume	3.08%	4.49%	5.57%
MSL Volume (in million)	5,128	3,258	2,623
PSX Volume (in million)	166,454	72,568	47,065

- 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.

Number of Active Clients	FY20	FY21	FY22	FY23
House	8	10	15	15
Domestic Institutions	100	111	139	149
Domestic Individuals	841	1,075	1,071	1,024
Total	949	1,196	1,225	1,188

Sound liquidity, stable capitalization profile and manageable market risk

Liquidity & Credit Risk:

- MSL's liquidity profile remained sound as total liquid assets provided 3.22x times coverage to total liabilities during 9M FY23 (FY22: 3.26x and FY21: 2.46).
- Company's liquidity profile is also supported by current ratio maintenance above 1x and standing at 4.6x at end-9M FY23.

Capitalization:

- Capitalization indicators of the Company remained sound, gearing indicator stood at 0.01x end-9M'FY23 (FY22: 0.0, FY21: 0.03) while leverage indicator was reported to be 0.24x in 9M'FY23 (FY22 0.24x, FY21 0.27x).
- Equity base of the Company witnessed decline owing to negative bottom-line on account of unrealized losses on re-measurement of investments.

Credit Risk:

- MSL's credit risk emanates primarily from its receivable profile; trade debts depict increase on timeline basis. End-9M'FY23 receivables from customers stood at Rs. 56.2m (FY22: Rs. 30.5m) Rs. 79.2m are receivables against margin finance (FY22: Rs. 92.2m and FY21: Rs. 248.5m). Albeit, given that 52% of receivables are recovered within one day to ten days as of 9M'FY23 (FY22: 63% and FY21: 78%) the Company's ageing profile is considered manageable.

Market Risk:

- MSL maintains a proprietary book amounting to Rs. 292.2m at end 9M'FY23 (FY22: 318.5m and FY21: 333.2) against equity base of Rs. 625m. The Company has been reducing the porpreity book over time. Market risk exposure remains manageable with short term investments in relation to equity at 46.77% end-9M'FY23 (FY22 47%).

Corporate governance infrastructure is reflective of Company's operational status as Private Limited Company:

- 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	FY20	FY21	FY22	9MFY23
Property, Plant & Equipment	14.7	37.5	51.0	52.0
Trade Debts	12.7	50.1	30.5	56.2
Receivables against MF	114.5	248.5	92.2	79.2
ST Investments	245.0	333.2	318.5	292.2
LT Investments	-	-	-	-
Cash and Bank balances	159.9	110.3	154.8	192.2
Total Assets	627.9	850.0	740.4	775.1
Trade and Other Payables	120.8	157.8	145.0	85.3
Short Term Borrowings	-	22.3	-	4.8
Total Liabilities	120.8	180.2	145.0	150.3
Paid up Capital	100.0	100.0	100.0	100.0
Retained Earnings	407.1	569.8	495.5	537.1
Unrealized gain on revaluation of available for sale investments	-	-	-	(12.3)
Total Equity	507.1	669.8	595.5	624.8
<u>INCOME STATEMENT</u>				
Recurring Revenue	74.8	153.7	111.0	74.3
<i>Brokerage Income</i>	65.6	138.1	87.3	51.4
<i>Dividend income</i>	9.2	14.9	23.3	22.9
<i>IPO Commission</i>	-	0.6	0.5	-
Recurring Expenses	(42.1)	(88.7)	(109.8)	(57.4)
Capital (loss)/ gain on investments	(20.3)	62.3	12.1	8.8
Unrealized (loss)/ gain on investments	17.9	51.2	(86.6)	-
Finance Cost	(0.2)	(0.4)	(0.3)	(0.7)
Profit/(Loss) Before Tax	44.0	182.9	(69.7)	41.7
Profit/(Loss) After Tax	30.4	162.7	(74.3)	41.7
<u>RATIO ANALYSIS</u>				
Liquid Assets to Total Liabilities (%)	335.0%	246.1%	326.5%	322.3%
Liquid Assets to Total Assets (%)	64.5%	52.2%	63.9%	62.5%
Current Ratio (x)	4.8	4.5	4.6	4.6
Leverage (x)	0.2	0.3	0.2	0.2
Gearing (x)	-	0.03	-	0.01
Efficiency (%)	56.4%	57.7%	98.9%	77.2%
ROAA (%)	5.3%	22.0%	-9.3%	5.5%
ROAE (%)	6.2%	27.6%	-11.7%	6.8%

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	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	06-Nov-23	A-	A-2	Stable	Reaffirmed
	14-Apr-22	A-	A-2	Stable	Reaffirmed
	12-Feb-21	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 Meeting Conducted	Name	Designation		Date	
	Mr. Rahib Madraswala	CFO/COO		August 1, 2023	
	Mr. Shahid	Finance Manager			