RATING REPORT

Fawad Yusuf Securities Limited

REPORT DATE:
February 26, 2021

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

Batool Zaidi
batool.zaidi@vis.com.pk

RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	Feb 26, 2021	

COMPANY INFORMATION	
Incorporated in 2001	**External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Unlisted Company	**Chief Executive Officer:** Mr. Fawad Yusuf
Key Shareholders (with stake 5% or more):	
Mr. Fawad Yusuf – 40%	
Mr. Nasir Yusuf – 40%	
Mrs. Shenila Fawad – 10%	
Mrs. Seema Nasir – 10%	

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

Fawad Yusuf Securities Limited (FYSL)

OVERVIEW OF THE INSTITUTION

Fawad Yusuf Securities Limited (FYSL) is a private limited company incorporated in 2001. FYSL holds a Trading Rights Entitlement Certificate (TREC) issued by Pakistan Stock Exchange Limited (PSX). The company is also a member of Pakistan Mercantile Exchange Limited (PMEX).

Major shareholding of (80%) of the company is vested between Mr. Fawad Yusuf (CEO) and Mr. Nasir Yusuf.

Profile of CEO

Mr. Fawad Yusuf is the CEO of FYSL for the past 2 decades. He is a graduate from Dow Medical College with a degree in medicine & surgery. He has over 20 years' of experience in the brokerage industry.

RATING RATIONALE

Operating in the brokerage business for over two decades, Fawad Yusuf Securities Limited (FYSL) is engaged in provision of equity brokerage services to domestic retail, high net worth individuals (HNWI) and institutional clients. The company provides brokerage services through ready, futures and margin trading. Shareholding of the company is vested within four family members. Total staff strength stands at 17 employees. As per the management, there are plans to expand branch network and existing workforce in the medium-term. The company operates through its head office and a branch located at Shah-re-Faisal, Karachi.

Key Rating Drivers

After two consecutive years of dismal trading activity, PSX volumes have depicted considerable improvement and thus, positively impacted profitability profile of brokerage industry.

Market volumes showcased an increase of around ~27% in FY20 largely driven by high index volatility experienced during the period (given the impact of covid-19 and subsequent economic recovery). The growth momentum continued in the ongoing fiscal year with overall PSX volumes clocking in at ~74b in 1HFY21. Going forward, positive investor sentiment resulting from improving macroeconomic indicators would further improve the overall market participation over the medium term.

PSX Data (Ready + Future)	FY18	FY19	FY20	1HFY20	1HFY21
Volume (In Billions)	58	55	68	36	74
Value (In Billions)	2,881	2,354	2,552	1,300	2,931

Outlook for the brokerage industry is considered favorable with volumes expected to be noticeably higher in the ongoing fiscal year vis-à-vis FY20.

Uptick in industry trading volumes has improved brokerage revenues. Going forward, focus would remain on the growth of retail operations.

FYSL's market share improved to 4.0% (FY19: 3.5%) in FY20 on the back of higher share turnover for clients and commission earned per share. Owing to same, the brokerage income has doubled in FY20 and the growth momentum continues in the ongoing fiscal year. Retail clientele forms the major proportion (~93%) of brokerage revenue while the remaining is shared by domestic institutional business. Presently, FYSL has 1,015 clients; of which around 10% are active with 40-50 HNWI. Moreover, top 10 clients constitute around two-fifth of brokerage income which indicates high concentration risk.

No. of clients	FY20	FY19
Retail/ Individuals	987	885
Domestic Institutions	28	28
Total	**1,015**	**913**

More than four-fifth of the retail business is generated through a head office and branch while remaining is contributed by online clients. Going forward, focus would remain on the growth of retail operations.

Overall profitability is significantly supported by re-measurement gains on investments. Going forward, financial performance would remain sensitive to the vagaries of local stock market given sizeable propriety book.

Dividend income represents the major proportion (~80%) of company's recurring revenues. The same grew by ~8% given the two-fold increase in brokerage income in FY20. The dividend income has declined on a timeline basis and was reported at Rs. 184.7m (FY19: Rs. 193.6m; FY18: Rs. 254.3m). On the costs front, administrative expenses have more than doubled primarily on account of sizeable increase in salaries and allowances. The company's cost-income ratio depicted weakening to 20.7% (FY19: 6.5%); however, the same remains on the lower side compared to peers.

Furthermore, gain on re-measurement of investments and impairment reversal of trade debts supported the profitability profile in FY20. Post two consecutive years of significant losses, bottom line has turned positive reporting at Rs. 722.3m (FY19: Loss after tax of Rs. 1.1b). 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.

Sizeable equity base and low leveraged capital structure

Equity base had eroded ~40% over the two-year period (FY17-19) due to sizeable net losses incurred; however, the same witnessed considerable recovery at end-FY20 and in the ongoing fiscal year on the back of improvement in profitability. Moreover, the equity base stands higher (vis-à-vis peers) on account of significant retained earnings. Given the low leveraged capital structure, gearing and leverage ratios remain on the lower side.

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 (three-fifth of total asset base), liquid assets coverage of liabilities is considered sound. Credit risk is considered manageable given that 80% of the trade debts are outstanding for less than 90 days while entire institutional trades are conducted through Institutional Delivery System (IDS).

Market risk emanating from the investment portfolio is on the higher side as evident from high equity investments in relation to equity (67% at end-HFY21). However, sizeable deployment in the blue chip scrips provides comfort to some extent to the risk profile of the company.

Corporate governance framework has room for improvement

At present, FYSL has four directors including the CEO. Overall board level governance has room for improvement through increasing board size and induction of independent directors. Disaster recovery measures are in place and are monitored in-house. Internal audit and compliance departments are outsourced while research department does not exist at present.

Fawad Yusuf Securities Limited (FYSL)

FINANCIAL SUMMARY (Rs. in millions)				Appendix I
BALANCE SHEET	**FY20**	**FY19**	**FY18**	**FY17**
Property, Plant & Equipment	4.6	6.0	6.8	7.8
Trade Debts	1,472.0	866.9	581.8	496.3
ST Investments	2,963.2	2,864.5	4,119.0	6,090.6
LT Investments	-	-	21.4	10.3
Cash and Bank balances	47.2	35.8	98.4	61.6
Total Assets	**4,522.9**	**3,813.1**	**4,863.0**	**6,706.9**
Trade and Other Payables	50.9	38.0	31.7	62.8
Long Term Loans (including CM)	-	-	-	-
Short Term Borrowings	27.5	34.1	-	452.7
Total Liabilities	**87.2**	**99.7**	**59.3**	**559.9**
Paid up Capital	50.0	50.0	45.0	45.0
Total Equity *(excluding surplus)*	**4,435.7**	**3,713.4**	**4,788.2**	**6,125.0**
INCOME STATEMENT				
Recurring Revenue				
Brokerage Income	40.1	20.5	12.2	25.7
Dividend income	184.7	193.6	254.8	209.3
MFS Income	8.6	1.5	3.8	1.7
IPO Commission	-	-	0.4	1.0
Recurring Expenses	(41.7)	(17.4)	(21.6)	(25.7)
Unrealized (loss)/ gain on investments	528.9	(1,289.8)	(1,591.6)	-
Finance Cost	(2.7)	(1.4)	(4.4)	(29.3)
Profit/(Loss) Before Tax	**733.4**	**(1,041.4)**	**(1,308.3)**	**275.1**
Profit/(Loss) After Tax	**722.3**	**(1,069.7)**	**(1,336.8)**	**242.0**
RATIO ANALYSIS				
Liquid Assets to Total Liabilities (%)	3452.8%	2909.7%	7117.9%	1098.6%
Liquid Assets to Total Assets (%)	66.6%	76.1%	86.7%	91.7%
Current Ratio (x)	57.24	52.56	151.48	12.85
Leverage (x)	0.02	0.03	0.01	0.09
Gearing (x)	0.01	0.01	-	0.07
Efficiency (%)	19.0%	8.7%	9.6%	23.2%
ROAA (%)	17.3%	-24.7%	-23.1%	4.0%
ROAE (%)	17.7%	-25.1%	-24.4%	4.3%

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	Fawad Yusuf Securities Limited (FYSL)
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**: 26-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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meeting Conducted	**Name** / **Designation** / **Date**: **Mr. Fawad Yusuf** / CEO / February 4, 2021

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
26-Feb-21	A-	A-2	Stable	Initial

Due Diligence Meeting Conducted:

Name	Designation	Date
Mr. Fawad Yusuf	CEO	February 4, 2021