

## BROKER MANAGEMENT RATING REPORT

### AKIK Capital (Private) Limited

**REPORT DATE:**

11 November, 2022

**RATING ANALYSTS:**

Batool Zaidi

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**APPLICABLE**
**METHODOLOGY:**

Broker Management Ratings 2020:

<https://docs.vis.com.pk/docs/BMR202007.pdf>

| Rating Category                 | Latest Rating   |
|---------------------------------|---|
| <b>Broker Management Rating</b> | <b>BMR3</b>   |
| <b>Rating Rationale</b>         | The rating signifies adequate regulatory requirement and supervision, internal controls, client relationship and HR and infrastructure. Financial Management and Compliance & Risk Management are also considered adequate while external control framework is sound. |
| <b>Rating Date</b>              | 11 November, 2022   |

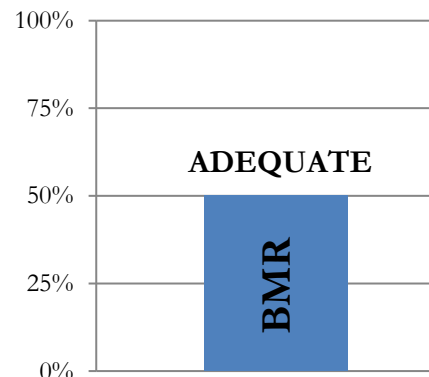
#### COMPANY INFORMATION

|  |  |
|--|--|
| <b>Incorporated in 2020</b>  | <b>External auditors:</b> M/s. Kreston Hyder Bhimji & Co Chartered Accountants |
| <b>Private Limited Company</b>   | <b>CEO/Chairman of the Board:</b> Mr. Muhammad Qasim Lakhani                   |
| <b>Key Shareholders (with stake 5% or more):</b><br><i>Muhammad Qasim Lakhani ~ 100%</i> |  |

#### Corporate Profile

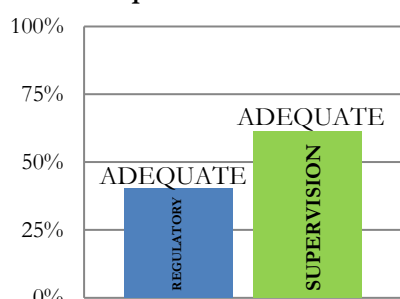
Incorporated in April 2020, AKIK Capital is a private limited company principally engaged in the brokerage of shares. The Company caters mainly to domestic institutional and retail clients. At present, AKIK operates through its head office based in Karachi, where it provides both assisted and online trading services.

The Company holds Trading Rights Entitlement Certificate (TREC) granted by Pakistan Stock Exchange Limited (PSX), and is registered with SECP to provide Trading & Self Clearing Services. External auditors of the company are Kreston Hyder Bhimji & Co Chartered Accountants. External auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).



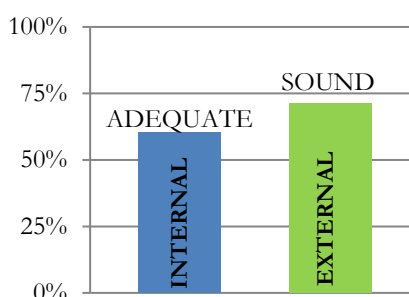
**Rating Factors Scores**

**Regulatory Requirements & Supervision Framework**



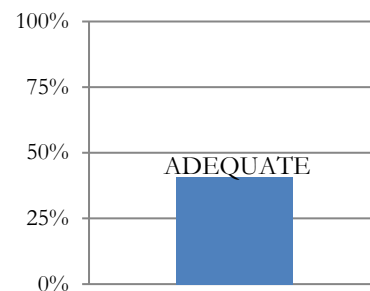
- The Company currently has a Board consisting of two members only. Increasing the board size from current two members and inclusion of independent and certified directors may enhance the supervisory framework. Additionally, it may support the formation of independently represented board level committees.
- Acquiring additional licenses may be considered to improve revenue generation and support larger trading activity.

**Internal & External Control Framework**



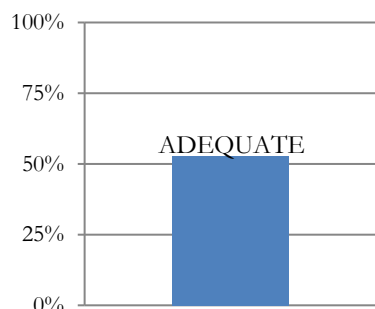
- Internal control framework remains adequate; measures to ensure client confidentiality remain in place.
- Some internal policies and procedures are still under formulation and may be comprehensively developed.
- Circulating the policies with customers and other stakeholders also may further strengthen the internal control framework.
- Regular review of policies and procedures may be maintained.

**Client Relationship & Fairplay**



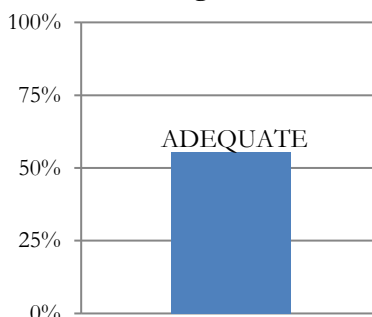
- Room for improvement exists in client management and facilitation tools and processes. Availability of full scope online trading platform, trade execution alerts and customer complaint tracking system through SMS may be considered.
- Geographical diversification may support future business growth.
- Overall client relationship and fair play is adequate.

**HR & Infrastructure**



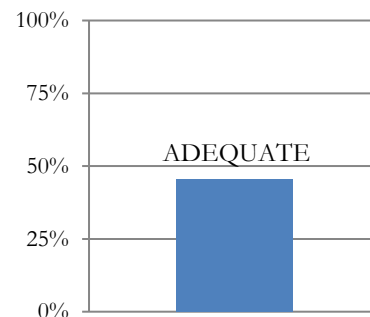
- Organization structure commensurate with the size of the company; overall HR & Infrastructure is adequate.
- Data backup procedures have been established; business continuity and disaster recovery mechanism is yet to be tested.

**Compliance & Risk Management**



- Internal audit is outsourced to a third party, which is viewed favorably.
- Compliance operates as a separate function; however, inclusion of an independent risk department may be considered as operations of the Company grow.
- Market risk exposure depicts an improving trend, albeit remains elevated.

**Financial Management**



- Market activity during FY22 was dismal, trading volumes across industry significantly declined which also impacted the Company's earning profile. Core brokerage income declined by 25% during FY22, however, the Company has a well-managed propriety book, which contributed towards profitability gains for the Company in FY22 contrary to other industry players.
- Cost to income ratio witnessed further deterioration to 104% from 79% during the year.
- Capitalization indicators remain manageable with zero gearing and leverage at 0.44x (FY21 0.34x).
- Liquidity profile of the Company also remains adequate with liquid assets accounting for 1.85x of liabilities.
- Going forward, augmentation of revenues to reduce dependence on brokerage along with curtailment of operating expenses, maintaining capitalization indicators and increasing market share will remain important for the rating. Managing market risk in a subdued market will also remain important.

## MANAGEMENT QUALITY SCALE &amp; DEFINITIONS

## Appendix I

# VIS Credit Rating Company Limited

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## RATING SCALE & DEFINITIONS: [BROKER MANAGEMENT RATING](#)

### **BMR1A**

Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.

### **BMR3++, BMR3+, BMR3**

Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.

### **BMR1++, BMR1+, BMR1**

Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.

### **BMR4++, BMR4+, BMR4**

Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.

### **BMR2++, BMR2+, BMR2**

Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.

### **BMR5**

Weak regulatory compliance and business practices

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### **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)

| <b>REGULATORY DISCLOSURES</b>       |   | <b>Appendix II</b> |                       |                      |
|-------------------------------------|---|--------------------|-----------------------|----------------------|
| <b>Name of Rated Entity</b>         | AKIK Capital (Private) Limited  |                    |                       |                      |
| <b>Sector</b>                       | Brokerage   |                    |                       |                      |
| <b>Type of Relationship</b>         | Solicited   |                    |                       |                      |
| <b>Purpose of Rating</b>            | Broker Management Rating (BMR)  |                    |                       |                      |
| <b>Rating History</b>               | <b>Rating Date</b>  | <b>Rating</b>      | <b>Rating Outlook</b> | <b>Rating Action</b> |
|                                     | <b><u>RATING TYPE: BMR</u></b>  |                    |                       |                      |
|                                     | 11/11/2022  | BMR3               | Stable                | Initial              |
|                                     | 29/ 09/ 2021  | BMR3               | 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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