

## RATING REPORT

### AKD Securities Limited

**REPORT DATE:**

August 3, 2016

**RATING ANALYSTS:**

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**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        |            | Rating Watch-Negative |            |
| Rating Date     | Aug 2, 2016   |            | Jan 6, 2016           |            |

**COMPANY INFORMATION**

Incorporated on 16<sup>th</sup> May 2007

External auditors: **Riaz Ahmed and Company Chartered Accountants**

Public Limited Company

Chairperson of the Board: **Hina Junaid**

Key Shareholders (with stake 5% or more):

Chief Executive Officer: **Muhammad Farid Alam, FCA**

Aqeel Karim Dhedhi Securities Private Limited

**APPLICABLE METHODOLOGY(IES)**

JCR-VIS Entity Rating Criteria

Methodology – Securities Firms Rating (May 2015)

<http://www.jcrvis.com.pk/Images/Securities%20methodology%201%20-2015.pdf>

**AKD Securities Limited****OVERVIEW OF THE INSTITUTION**

AKD Securities Limited is a public limited company incorporate under the Companies Ordinance, 1984. The company is a TREC holder of Karachi Stock Exchange and a wholly owned subsidiary of Aqeel Karim Dhedhi Securities (Pvt.) Limited, through direct and beneficial ownership.

**RATING RATIONALE**

AKD Securities Limited (AKDSL) is a wholly owned subsidiary of Aqeel Karim Dhedhi Securities (Pvt.) Limited (AKDSPL). The company provides services to clients in the form of equity brokerage for domestic (retail and institutional) & foreign investors and investment banking.

- In January 2016, legal proceedings were initiated by the Federal Investigation Agency against the company leading to three of its directors being apprehended. Subsequently, the directors were released on bail in May 2016 by the Apex court and have returned to their positions. Given the nature of financial services sector, which has a fiduciary duty towards clients, reputational damage faced being faced by the company has led to attrition of its franchise value.
- The resulting slow-down in business activity was largely borne by the corporate advisory department, which constitutes a sizeable proportion of AKDSL's earning base. As a result of the above factors and increase in administrative expenses, profit after taxation declined to Rs. 117m (9MFY15: Rs. 167m) over 9MFY16. Given the suspension of ongoing corporate advisory deals/transactions, significant turnover in the department was observed. Furthermore, commission income earned during 3QFY16 exhibited considerable decline vis-à-vis average of last two quarters. This is attributed to lower volume of shares traded in the KSE All Share Index.
- Sponsors and the management are making efforts to recoup the franchise and business position of the company. The company's ability to attract quality human resources and their stability, along with attainment of earlier levels of corporate advisory and brokerage business will be important determinants of the institution's performance.

**Outlook**

Going forward, settlement of related parties' liabilities and the conclusion of legal proceeding would be considered important from a ratings perspective.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

| <b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i> |  |                  | <b>Appendix I</b>                     |
|---|--|------------------|---------------------------------------|
| <b><u>BALANCE SHEET</u></b>                               | <b>31-Mar-16</b><br><b>(unaudited)</b> | <b>30-Jun-15</b> | <b>30-Jun-14</b><br><b>(restated)</b> |
| Trade Debts   | 1,357.2                                | 1,290.0          | 1,315.7                               |
| Long Term Investments                                     | 1,790.1                                | 1,790.1          | 1,790.1                               |
| Short Term Investments                                    | 115.3                                  | 141.7            | 52.1                                  |
| Cash and Bank balances                                    | 36.2                                   | 141.0            | 383.1                                 |
| <b>Total Assets</b>                                       | <b>4,122.1</b>                         | <b>4,366.9</b>   | <b>4,048.6</b>                        |
| Trade & Other Payables                                    | 715.9                                  | 1,008.0          | 726.2                                 |
| Interest Bearing Debt                                     | 156.4                                  | 214.1            | 379.6                                 |
| Short Term running finance                                | -                                      | -                | 103.0                                 |
| Advance against Share Capital                             | 1,378.7                                | 1,378.7          | 1,378.7                               |
| <b>Net Worth</b>  | <b>1,456.6</b>                         | <b>1,339.3</b>   | <b>1,125.7</b>                        |
| <b><u>INCOME STATEMENT</u></b>                            | <b>31-Mar-16</b><br><b>(unaudited)</b> | <b>30-Jun-15</b> | <b>30-Jun-14</b><br><b>(restated)</b> |
| Total Revenue   | 424.4                                  | 641.6            | 491.2                                 |
| Administrative Expenses                                   | 260.7                                  | 327.3            | 259.9                                 |
| Finance Costs   | 7.5                                    | 29.0             | 120.5                                 |
| <b>Profit Before Tax</b>                                  | <b>156.3</b>                           | <b>285.3</b>     | <b>110.8</b>                          |
| <b>Profit After Tax</b>                                   | <b>117.3</b>                           | <b>190.5</b>     | <b>87.5</b>                           |
| <b><u>RATIO ANALYSIS</u></b>                              | <b>31-Mar-16</b><br><b>(unaudited)</b> | <b>30-Jun-15</b> | <b>30-Jun-14</b><br><b>(restated)</b> |
| Market Share (Share Turnover) (%)                         | N/A*                                   | 12.7%            | 10.8%                                 |
| Commission Income / Turnover (Paisa/Share)                | N/A*                                   | 4.44             | 3.82                                  |
| Liquid Assets to Total Liabilities (%)                    | 11.7%**                                | 17.1%            | 28.0%                                 |
| Liquid Assets to Total Assets (%)                         | 3.6%**                                 | 6.4%             | 10.6%                                 |
| Debt Leverage (x)   | 0.88                                   | 1.23             | 2.61                                  |
| Gearing (x)   | 0.11                                   | 0.16             | 0.33                                  |
| Efficiency (%)  | 67.0%**                                | 59.3%            | 69.4%                                 |
| ROAA (%)  | 3.7%                                   | 4.5%             | 1.8%                                  |
| ROAE (%)  | 11.2%                                  | 15.5%            | 8.1%                                  |

\* N/A: not available, \*\* based on estimates

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:** JCR-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.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.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.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.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.

**'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.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-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.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

| REGULATORY DISCLOSURES              |   | Appendix III               |                   |                       |                      |
|-------------------------------------|---|----------------------------|-------------------|-----------------------|----------------------|
| <b>Name of Rated Entity</b>         | AKD 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><u>RATING TYPE: ENTITY</u></b>   |                            |                   |                       |                      |
|                                     | 8/2/2016  | A                          | A-2               | Stable                | Downgrade            |
|                                     | 1/6/2015  | A+                         | A-2               | Rating Watch-Negative | Maintained           |
|                                     | 10/9/2015   | A+                         | A-2               | Stable                | Initial              |
| <b>Instrument Structure</b>         | N/A   |                            |                   |                       |                      |
| <b>Statement by the Rating Team</b> | JCR-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>       | JCR-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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