

RATING REPORT

AKD Securities Limited

REPORT DATE:

March 9, 2018

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 | | Stable | |
| Rating Date | January 19, 2018 | | August 22, 2016 | |

COMPANY INFORMATION

Incorporated on 16th May 2007

External auditors: **Riaz Ahmed and Co. Chartered Accountants**

Public Limited Company

Chairperson of the Board: **Mrs. Hina Junaid**

Key Shareholders (with stake 5% or more):

Chief Executive Officer: **Mr. Muhammad Farid Alam**

Aqeel Karim Dhedhi Securities (Pvt.) Limited: 100%

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017)

<http://jcrvis.com.pk/docs/Securities%20Firms%20201706.pdf>

AKD Securities Limited

| OVERVIEW OF THE INSTITUTION | RATING RATIONALE |
|--|---|
| <p>AKD Securities Limited is a public limited company incorporated 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.</p> <p>Profile of Chairperson Mrs. Hina Junaid has been a part of AKDSL since 2007 and is accredited with the establishment of AKD Commodities (Pvt.) Limited. Mrs. Junaid has extensive experience in client portfolio management, equity sales and business development, focusing primarily on domestic institutions and HNWI's. Mrs. Junaid works with charitable cause and social welfare projects for women empowerment, children's education, medical research and poverty alleviation.</p> <p>Profile of CEO Mr. Muhammad Farid Alam has been CEO of AKDSL since 9 years. He has over 20 years' experience in the finance sector having begun his career with Crescent Investment Bank Limited which was the first investment bank incorporated in Pakistan. He is a fellow member of the Institute of Chartered Accountants of Pakistan (ICAP).</p> | <p>In 2007, AKD Securities Limited (AKDSL) was incorporated as a public limited company. AKDSL is primarily engaged in equity, money market & interbank brokerage and corporate advisory.</p> <p>Brokerage Brokerage income has recorded sizeable growth during FY17 on the back of healthy increase in retail commission income. However, brokerage income from foreign clients and domestic institutions has remained stagnant over the last two years. Management plans to sign new partnerships and further increase breadth of research function to grow foreign & institutional business. In line with industry trend, brokerage income has witnessed a dip during 1HFY18 due to decline in market volumes.</p> <p>Profitability Despite the decline in corporate advisory fees, growth in brokerage commissions resulted in higher revenues during FY17. Overall profitability was lower on account of higher provision against doubtful debts. With equity brokerage representing majority of topline, profitability remains dependent on market movements. To augment corporate advisory income two senior resources have been hired during 2017. Given the sizeable mandates in hand, management expects corporate advisory income to depict healthy growth in the ongoing year.</p> <p>Credit Risk Management has taken steps to improve recoveries of receivables as indicated by lower trade debts. Nevertheless, concentration continues to be on the higher side amongst top ten trade debts and highest debtor. Going forward, management has intimated that the aforementioned outstanding dues will be recovered or written off.</p> <p>Research and Controls Number of companies under active coverage has been increased to over 50 and represents around 80% of the market capitalization. Overall functioning of the audit and compliance function is considered adequate. To improve control environment, a structured audit plan is being developed and key policies & manuals are being drafted.</p> <p>Governance & Management Board of Directors comprises professionals having experience in the financial services sector. Management team had witnessed turnover in the previous year. Since then, majority vacancies have been filled with experienced individuals.</p> |

| FINANCIAL SUMMARY | <i>(amounts in PKR millions)</i> | | Appendix I |
|--|----------------------------------|------------------|------------|
| <u>BALANCE SHEET</u> | 30-Jun-17 | 30-Jun-16 | |
| Trade Debts | 434.3 | 884.2 | |
| Long Term Investments | 393.0 | 1,790.1 | |
| Short Term Investments | 79.5 | 26.1 | |
| Cash and Bank balances | 161.2 | 83.2 | |
| Total Assets | 2,613.9 | 4,195.2 | |
| Trade & Other Payables | 1,156.7 | 789.7 | |
| Interest Bearing Debt | 95.4 | 151.7 | |
| Short Term running finance | - | - | |
| Total Liabilities | 1,280.0 | 1,313.9 | |
| Advance against Share Capital | 768.7 | 1,378.7 | |
| Total Equity | 559.7 | 1,497.7 | |
| Adjusted Equity** | 719.2 | 850.1 | |
| <u>INCOME STATEMENT</u> | 30-Jun-17 | 30-Jun-16 | |
| Total Revenue | 653.0 | 599.9 | |
| Administrative Expenses | 488.7 | 384.8 | |
| Finance Costs | 9.5 | 14.7 | |
| Profit Before Tax | 154.8 | 200.4 | |
| Profit After Tax | 87.9 | 146.8 | |
| <u>RATIO ANALYSIS</u> | 30-Jun-17 | 30-Jun-16 | |
| Liquid Assets to Total Liabilities (%) | 88.7% | 134.1% | |
| Liquid Assets to Total Assets (%) | 36.9% | 42.2% | |
| Adjusted Debt Leverage (x) | 1.8 | 1.6 | |
| Adjusted Gearing (x) | 0.13 | 0.18 | |
| Efficiency (%) | 97.9% | 84.3% | |
| ROAA (%) | 2.6% | 3.4% | |
| ROAE (%) | 11.2% | 18.1% | |

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

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

(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.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 |
|-------------------------------------|---|----------------------------|-------------------|-----------------------|----------------------|
| Name of Rated Entity | AKD Securities Limited | | | | |
| Sector | Brokerage | | | | |
| Type of Relationship | Solicited | | | | |
| Purpose of Rating | Entity Rating | | | | |
| Rating History | Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
| | RATING TYPE: ENTITY | | | | |
| | 1/19/2018 | A | A-2 | Stable | Reaffirmed |
| | 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 |
| Instrument Structure | N/A | | | | |
| Statement by the Rating Team | 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. | | | | |
| Probability of Default | 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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