

RATING REPORT

Pearl Securities Limited

REPORT DATE:

December 10, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB-	A-3	BBB	A-3
Rating Outlook	Negative		Negative	
Rating Date	Aug 31, 2017			

COMPANY INFORMATION

Incorporated in 2000	External auditors: M/s Muniff Ziauddin & Co. Chartered Accountants
Public Limited Company	Chairman of the Board: Syed Alamgir Shah
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Ms. Farah Zubair
General Provident and Investment Fund of Khyber Pakhtunkhwa – 39.3%	
Mrs. Fatima Usman – 30.7%	
Ms. Alia Dhedhi – 6.7%	
Mr. Amir Nazeer Dhedhi – 6.7%	
Mr. Muhammad Arfeen Dhedhi – 6.7%	
Mrs. Naik Parveen – 6.7%	

APPLICABLE METHODOLOGY(IES)

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

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

Pearl Securities Limited (PSL)

OVERVIEW OF THE INSTITUTION

Pearl Securities Limited (PSL) was initially formed as a private limited company in 2000. Later, in 2009, it was converted to a public limited entity. PSL provides equity, money market & interbank foreign exchange brokerage, along with underwriting services.

Profile of CEO

Ms. Farah Zubair has experience pertaining to human resources, corporate planning, project management and change management. Prior to being appointed as CEO, Ms. Farah Zubair served as

Head of Human Resources at PSL. She possesses more than a decade of experience at various brokerage firms.

RATING RATIONALE

Pearl Securities Limited (PSL) is engaged in provision of equity, commodities, money market & interbank foreign exchange brokerage, along with financial consultancy and underwriting services. Currently, the company operates through its head office based in Karachi and six branches in the provinces of Sindh, Punjab and KP.

Rating Drivers:

Sponsor Support: General Provident and Investment (GPI) Fund, established by Government of Khyber Pakhtunkhwa (KP), holds a 39.3% stake in the company. Given the liquidity constraints that the PSL is facing due to decrease in brokerage income and sizeable quantum of outstanding trade debts, management expects support from GPI in the form of a loan. However, delay has been observed in processing of application for provision of this loan, thereby creating a drag on liquidity profile of the company.

Management Profile: During the period under review, considerable turnover was observed in the senior management team, particularly in the position of the advisor. The Head of equity brokerage is also not functional. Strengthening of management team is required to provide strategic direction to the company. Given the management's focus on diversification of revenue streams, corporate finance function was strengthened with hiring of experienced resources.

Investments: Proprietary book of the company witnessed sizeable decrease to Rs. 839.2m (FY18: Rs. 865.2m; FY17: Rs. 1,624.7m) at end-Oct 2018. This reduction was observed on account of decrease in market value of scrips in view of downturn witnessed in market and management's strategy to reduce the size of the portfolio. Despite reduction on yearly basis, investment portfolio as a proportion of company's adjusted equity remained considerable at 3.3x (FY18: 3.5x; FY17: 5.3x), thereby indicating significant exposure to market risk. Furthermore, as observed in the preceding years, investment portfolio continues to feature sizeable concentration as shares of two listed comprised 73.7% (FY17: 67.8%) of the total investment portfolio at end-FY18.

Credit Risk: Total outstanding trade debts of the company decreased to Rs. 1.0b (FY18: Rs. 1.8b; FY17: Rs. 1.2b) at end-October 2018. As a marketing tool, management sometimes allows uncollateralized trade debts in case of some clients. Such practice may be avoided to limit exposure to credit risk. Trade debts continue to feature concentration with top 10 clients accounting for 72% (FY17: 85%) of outstanding trade debts at end-FY18.

Profitability: Market share of PSL (in term of volume traded) increased to 4.0% (FY17: 3.1%) in FY18. However, given the decrease in overall market volumes, brokerage income (adjusted for sales tax) of the company declined to Rs. 111.8m (FY17: 160.4m). Granularity in customer base weakened on yearly basis as 49 clients (FY17: 82 clients) accounted for 66% revenue of the company in FY18. Decrease in topline of the company translated into lower bottom-line during the same period. Total operating revenue and profit after tax in the period from Jul-Oct' 18 amounted to Rs 82.0m and 1.1m, respectively. Going forward, management aims to increase its share of advisory income to reduced reliance on brokerage commission.

Liquidity & Capitalization: Total liquid assets witnessed sizeable decrease in FY18 due to decrease in market value of short term investments. Resultantly proportion of liquid assets in relation to total liabilities (Oct'18: 50.7%; FY18: 46.1%; FY17: 85.6%) witnessed decrease vis-à-vis FY17. At end-Oct'18, equity base of the company also decreased considerably vis-à-vis FY17 to 262.8m (FY18: Rs. 258.1m; FY17: Rs. 682.6m) due to erosion of unrealized gain on investments. Short term borrowings were reduced given the decrease in trade debts. Resultantly, adjusted gearing and leverage ratios improved to 6.4x (FY18: 10.2x; FY17: 7.7x) and 7.6x (FY17: 11.4x; FY16: 9.3x) at end-Oct'18. However, leverage indicators, at current levels, still pose a risk to financial profile of the company.

Pearl Securities Limited
Appendix I

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	FY18	FY17	FY16
Trade Debts	1,825.5	1,233.1	1,049.3
Long Term Investments	32.3	62.2	15.0
Short Term Investments (Prop. Book)	865.8	1,624.7	1,750.1
Cash and Bank balances	127.6	181.4	114.5
Total Assets	3,203.4	3,663.4	3,354.7
Trade and Other Payables	235.0	444.2	218
Long Term Borrowings	650.0	150.0	368.0
Short Term Running Finance	1,992.4	2,312.5	2,161.8
Total Liabilities	2,945.3	2,980.8	2,786.7
Un-appropriated Profit	164.4	175.1	153.1
Surplus on Available for Sale Investments	(50.5)	363.4	270.7
Net Worth	258.1	682.6	568.0
<u>INCOME STATEMENT</u>	FY18	FY17	FY16
Operating Revenue	147.4	321.7	337.3
Capital gains of ST investments	77.7	150.5	19.9
Administrative Expense & Operating Expenses	(191.2)	(204.9)	(161.0)
Finance Costs	(78.4)	(216.9)	(227.9)
Profit Before Tax	42.3	133.9	58.5
Profit After Tax	18.3	58.0	34.0
<u>RATIO ANALYSIS</u>	FY18	FY17	FY16
Market Share (Share Turnover) (%)	4.0%	3.1%	5.3%
Commission Income / Turnover (Paisa/Share)	6.6	6.0	5.0
Liquid Assets to Total Liabilities (%)	46.1%	85.6%	66.9%
Liquid Assets to Total Assets (%)	42.4%	69.6%	55.6%
Gearing	10.2	3.6	4.5
Debt Leverage	11.4	4.4	4.9
Adjusted Gearing	10.2	7.7	8.5
Adjusted Debt Leverage	11.4	9.3	9.4
ROAA	0.5%	1.7%	0.9%
ROAE	3.9%	9.3%	5.1%
Efficiency	97.8%	95.2%	98.1%

ISSUE/ISSUER RATING SCALE & DEFINITION

Appendix II

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

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

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.

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

'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	Pearl 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				
	Xx-Nov-18	BB+	A-3	Negative	Downgrade
	16-Feb-17	BBB	A-3	Negative	Maintained
	21-Oct-15	BBB	A-3	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.				
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