

RATING REPORT

Adam Securities Private Limited

REPORT DATE:
30th December, 2015
RATING ANALYSTS:

Jazib Ahmed - CFA

jazib.ahmed@jcrvis.com.pk

RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BB	A-3
Rating Outlook	Stable	
Rating Date	30 th December, 2015	

COMPANY INFORMATION
Incorporated on 8th June 2001External auditors: M/s Nasir Javaid Maqsood Imran
Chartered Accountants

Private Limited Company

Chairperson of the Board: Mr. Abdul Majeed Adam

Key Shareholders (with stake 5% or more):

Chief Executive Officer: Mr. Abdul Majeed Adam

Abdul Majeed Adam – 52%

Noman Abdul Majeed Adam – 48%

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>

Adam Securities Private Limited

OVERVIEW OF THE INSTITUTION

Adam Securities Private Limited (ASPL) is a private limited company which was incorporated in June 2001 under the Companies Ordinance 1984. ASPL primarily undertakes equity brokerage; it is a TREC holder of Karachi and Lahore Stock Exchange.

RATING RATIONALE

Incorporated in 2001, Adam Securities Private Limited (ASPL) provides equity brokerage services to domestic retail and institutional clients. Majority shareholding of the company is vested with two individuals including the CEO. Moreover, position of CEO and Chairman is shared by the same person indicating room for improvement with respect to best practices of corporate governance. Given the absence of key formalized policies, existing policy framework of the company is considered weak. Furthermore, the structure whereby Head of Securities Brokerage, manages the proprietary book of the company requires improvement with respect to segregation of duties in order to reduce perception of self dealing.

Equity of ASPL has improved to Rs.384mn (FY14: Rs. 367mn; FY13: Rs. 242mn) at end FY15 on the back of capital issued to the tune of Rs. 90mn over last two years as well as interest-free director's loan of Rs. 50mn.

On the asset side, there has been variation in the short term investment levels, which was Rs. 54mn at end FY15. However the same reached a maximum of Rs. 299mn during FY15 highlighting lack of a formal investment policy. Trade debts have increased steadily over the years which represent 59% of the Rs. 781mn asset base at end FY15. Although aging of the trade debts is considered satisfactory with 92% falling in the 1-14 days category, there is considerable client concentration in the same; default in which would result in ASPL facing significant market risk. There has been a sizeable increase in reliance on short term borrowings to finance the trade debts which has led to assets and liabilities increasing over the years. Moreover, liquid assets have exhibited a declining trend over the past half-decade, resulting in deterioration of liquidity profile of the company, manifested in the liquid assets to total liability of 17% (FY14: 16%; FY13: 34%) at end FY15.

Market share pertaining to equity brokerage of the company has increased to 11% in FY15 compared to 8% for FY13. The company has not been successful in translating its considerable market share into appropriate profitability levels. This can be attributed to the low paisa per share charged to retail clients. ASPL has posted meager profits since the last two years, compared to successive losses from FY10 to FY13 which have decreased the accumulated profits from Rs. 81m at end-FY10 to Rs. 43m at end-FY15. Recurring revenue is unable to cover operating expenses for past years, which has resulted in an efficiency ratio of over 100%.

Adam Securities Private Limited

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>		Appendix III		
BALANCE SHEET	30-Jun-15	30-Jun-14	30-Jun-13	
Trade Debts	464	293	237	
Long Term Investments	49	49	49	
Short Term Investments (Prop. Book)	54	34	96	
Cash and Bank balances	13	40	14	
Total Assets	781	813	561	
Trade and Other Payables	51	43	10	
Short Term running finance	331	265	300	
Accumulated (Loss)/profit	43	42	41	
Net Worth	384	367	242	
INCOME STATEMENT	30-Jun-15	30-Jun-14	30-Jun-13	
Total Revenue	78	61	14	
Operating Expenses	43	35	15	
Compensation Expense	18	15	10	
Finance Costs	23	18	14	
Profit Before Tax	3	1	(20)	
Profit After Tax	1	1	(20)	
RATIO ANALYSIS	30-Jun-15	30-Jun-14	30-Jun-13	
Market Share (Share Turnover) (%)	11%	10%	8%	
Commission Income / Turnover (Paisa/Share)	0.57	0.60	0.25	
Liquid Assets to Total Liabilities	17%	16%	34%	
Liquid Assets to Total Assets	8%	9%	20%	
Debt Leverage	1.03	1.22	1.32	
Gearing	0.86	0.72	1.24	
Efficiency (%)	110%	110%	185%	
ROAA (%)	0.16%	0.13%	-5.01%	
ROAE (%)	0.33%	0.29%	-8.79%	

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix IV

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.

'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 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 V			
Name of Rated Entity	Adam Securities Private 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				
	30-Dec-2015	BB	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.				
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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-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. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				