

RATING REPORT

Adam Securities Limited

REPORT DATE

April 05, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BB	A-3	BB	A-3
Rating Outlook	Stable		Stable	
Rating Date	Apr 03, 2017		Dec 30, 2015	

COMPANY INFORMATION

Incorporated on 8th June 2001

External auditors: M/s Nasir Javaid Maqsood Imran
Chartered Accountants

Public Un-listed 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 Limited

OVERVIEW OF THE INSTITUTION

Adam Securities Limited (ASL) is a public limited company which was incorporated in June 2001 under the Companies Ordinance 1984. ASL primarily undertakes equity brokerage; it is a TREC holder of Pakistan Stock Exchange.

Profile of Chairman & CEO

Mr. Abdul Majeed Adam is the Chief Executive Officer & Director of Adam Securities Limited since 2001. He has over 26 years of experience in capital markets as well as in forex markets. He is an active director of Pakistan Stock Exchange and is also the Chairman of trading affairs committee, market development & new product development since 2012.

Financial snapshot

FY16: Total Equity:
Rs. 409.1m

FY16: Profit Before Tax: Rs. 14.0m

RATING RATIONALE

Incorporated in 2001, Adam Securities Securities (ASL) is engaged in provision of equity brokerage services to domestic retail and institutional clients. Recently, the company has also initiated underwriting services. Shareholding of the company is primarily vested with two individuals including the CEO.

Rating drivers

- **Market Share:** In terms of the volumetric turnover, ASL accounts for sizeable market share of 13% (FY15: 11%) of the KSE-100 index. As per management, operational history and sound reputation of ASL has enabled the company to gain such a sizeable market share.
- **Profitability:** Profitability has depicted modest growth on the back of increase in the brokerage commission earned. Brokerage commission augmented as a result of higher commission rates charged to the retail clientele; the revenue generated from the same accounted for approximately three-fifth of the company's total revenue. Recurring income is just enough to cover the operating expenses of the company as indicated by an efficiency ratio of 92% (FY15: 105%).
- **Liquidity and Capitalization:** Operations of the company are funded by a combination of equity, interest free loan acquired from the sponsor and running finance facilities acquired from the bank. Capitalization indicators have depicted improvement on account of additional subordinated interest free loan acquired from the sponsors along with minimal contribution from internally generated capital. Utilization of short term finance facilities has decreased vis-à-vis the preceding year. Debt Leverage and gearing stood at 0.4x (FY15: 1.0x) and 0.1x (FY15: 0.9x) at end-FY16; the same were reported higher at 0.9x and 0.6x at end-HYFY17. While remaining on the lower side, liquid assets in relation to total liabilities improved to 24.2% (FY15: 16.7%) in FY16. Sponsors provided Rs. 30m additional subordinated interest free loan in order to address any liquidity concerns.
- **Corporate Governance & Internal Control:** Existing corporate governance and internal control at ASL framework exhibits considerable room for improvement. At present, board committees also comprise only two members with restricted deliberations during board meetings. An internal audit resource is deployed at the company; however, scope of audit is limited. Internal audit activities are restricted to operational processes. In order to improve governance, management has prohibited every employee from trading in order to prevent self-dealing.
- **Credit Risk:** Credit risk of the company is considered manageable, primarily on account of company's strategy to deal with clients with whom the company has long term relationship. In FY16, volume of transactions conducted through IDS represented 83% (FY15: 51%) of the overall institutional trades, thereby minimizing the risk borne by the company. Moreover, aging of receivables is also considered satisfactory as 99% of receivables are due for less than 3 months.
- **Investments:** Market risk on investment portfolio is also considered manageable since the company mostly engages in ready future transactions. Moreover, portfolio size depicted considerable decrease during the outgoing year. Short term investment portfolio decreased to Rs. 5.6m (FY15: 53.7m) at end-FY16, while average monthly investment in FY16 was also lower at Rs. 28.1m (FY15: Rs. 158.2m). Given the additional inflow of Rs. 44.3m as a result of company's divestment in PSX shares; the equity of company is expected to increase to Rs. 509m.

Adam Securities Limited

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			Appendix II
<u>BALANCE SHEET</u>	30-Jun-16	30-Jun-15	30-Jun-14
Trade Debts	314	464	293
Long Term Investments	49	49	49
Short Term Investments (Prop. Book)	6	54	34
Cash and Bank balances	33	13	40
Total Assets	567	781	813
Trade and Other Payables	31	51	43
Short Term running finance	39	331	265
Accumulated (Loss)/profit	48	43	42
Net Worth	409	384	367
<u>INCOME STATEMENT</u>	30-Jun-16	30-Jun-15	30-Jun-14
Total Revenue	80	78	61
Operating Expenses	65	61	50
Compensation Expense	22	18	15
Finance Costs	11	23	18
Profit Before Tax	14	3	1
Profit After Tax	4	1	1
<u>RATIO ANALYSIS</u>	30-Jun-16	30-Jun-15	30-Jun-14
Market Share* (Share Turnover) (%)	13%	11%	10%
Commission Income / Turnover (Paisa/Share)	0.99	0.57	0.60
Liquid Assets to Total Liabilities	24%	17%	16%
Debt Leverage	0.38	1.03	1.22
Gearing	0.10	0.86	0.72
Efficiency (%)	91%	105%	102%
ROAA (%)	0.65%	0.16%	0.13%
ROAE (%)	1.10%	0.33%	0.29%

* including own prop book

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

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 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 IV			
Name of Rated Entity	Adam 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				
	03-April-2017	BB	A-3	Stable	Reaffirmed
	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.				
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