

RATING REPORT

Adam Securities Limited

REPORT DATE

March 30, 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	BB+	A-3
Rating Outlook	Stable		Stable	
Rating Date	March 30, 2018		October 31, 2017	

COMPANY INFORMATION

Incorporated on 9th 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%2020-2015.pdf>

Adam Securities Limited

OVERVIEW OF THE INSTITUTION

Adam Securities Limited (ASL) is a public unlisted 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. Financial statement for FY17 were audited by 'Nasir Javaid Maqsood Imran, Chartered Accountants'. The external auditors are in Category 'B' of SBP's panel of auditor.

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.

RATING RATIONALE

Adam Securities (ASL) was incorporated in 2001 as a private limited company. The company changed its status from private to public un-listed in 2016. ASL is principally engaged in provision of equity brokerage facilities to domestic retail and institutional clients as well as underwriting services. In the ongoing year, the company has acquired license for book running and is in the process of acquiring license for consultant to the issue. Shareholding of the company is primarily vested with two individuals including the CEO.

Key Rating drivers

- **Corporate governance:** Board of Directors (BoD) comprises four members; three executive directors and one independent director including the CEO. During the year, an independent director was inducted on the Board. There is considerable room for improvement with respect to governance as position of Chairman and CEO is not segregated. Furthermore, internal control policies and framework could be further strengthened with more frequent reviews and greater documentation.
- **Industry Analysis:** The induction of Pakistan Stock Exchange (PSX) into an emerging market from frontier market in the MSCI Index positively impacted the market volumes during FY17, however; slowdown in growth resulted in drying out of volumes during FY18, thereby affecting HYFY18 revenues of firms in brokerage industry. PSX All Share Index volume has dropped in HYFY18 by more than 50% vis-à-vis the same period last year. Moreover, market players who maintained unhedged proprietary investments reported higher losses during the year owing to decline in the value of market index.
- **Assets Mix:** Total assets of the company have witnessed an increase on a time line basis with majority growth manifested in long term advances and deposits owing to higher market volumes traded during FY17. Short term investments amounted to Rs. 159.1m (FY17: Rs. 9.9m, FY16: 5.6m) at end-HYFY18. There has been an increase in short term investment at end HYFY18, nonetheless, majority of the same is hedged by future contracts, limiting market risk. Trade debts aging is considered manageable and the same are secured against sufficient collateral.
- **Profitability:** In terms of volumetric turnover, ASL accounts for sizeable market share of 13.0% (FY17: 11.7%, FY16: 13.5%) in HYFY18. During FY17, the company witnessed a twofold increase in equity brokerage income amounting to Rs. 90.7m (FY16: Rs. 42.7m) in FY17 on account of increase in commission per share and higher market volumes. Moreover, despite the depressed market volume during HYFY18 the company exhibited a net profit of Rs. 10.5m (FY17: Rs. 86.2m, FY16: Rs. 4.4m), comparing favorably vis-à-vis peers. Efficiency indicator has showcased improvement on a timeline basis to 63.7% for HYFY18 (FY17: 77.8%, FY16: 102.0%)
- **Liquidity and Capitalization:** Equity base of the company was higher amounting to Rs. 540.4m at end-FY17 (FY16: Rs.409.1m) on the back of higher retained earnings and director's loan. Leverage and gearing stood at 0.6x (FY16: 0.4x) and 0.04x (FY16: 0.1x) respectively at end-FY17, the same were reported lower at 0.5x and nil at end-HYFY18 due to unutilized borrowing.
- **Underwriting:** There were five underwriting mandates undertaken during the year with minimal take up. ASL has remained compliant with its overall and per party underwriting limits during the period.

Adam Securities Limited

Financial Summary (Rs. in millions)			Appendix I
<u>BALANCE SHEET</u>	<u>31-Dec-17</u>	<u>30-Jun-17</u>	<u>30-Jun-16</u>
Trade Debts	186.7	218.2	314.1
LT Investments	44.3	49.6	48.5
ST Investments	159.1	9.9	5.6
Cash and Bank balances	36.6	53.8	32.6
Total Assets	826.2	885.9	566.6
Trade Payables	76.1	72.4	31.4
Short Term Financing	0.0	20.7	39.3
Net Worth	550.9	540.4	409.1
<u>INCOME STATEMENT</u>	<u>31-Dec-17</u>	<u>30-Jun-17</u>	<u>30-Jun-16</u>
Brokerage Income	40.8	90.7	42.7
Administrative Expenses	(43.6)	(95.5)	(65.1)
Finance Costs	(1.8)	(8.3)	(10.7)
Profit Before Tax	36.9	113.1	14.0
Profit After Tax	10.5	86.2	4.4
<u>RATIO ANALYSIS</u>	<u>31-Dec-17</u>	<u>30-Jun-17</u>	<u>30-Jun-16</u>
Market Share* (Share Turnover) (%)	13.0%	11.7%	13.5%
Commission Income / Turnover (Paisa/Share)	1.60	1.41	1.00
Liquid Assets to Total Liabilities (%)	205.5%	140.1%	42.5%
Liquid Assets to Total Assets (%)	61.9%	49.6%	11.8%
Debt Leverage (x)	0.45	0.58	0.38
Gearing (x)	0.0	0.04	0.10
Efficiency (%)	63.7%	77.8%	102.0%
ROAA (%)	1.2%	11.9%	0.7%
ROAE (%)	1.9%	18.2%	1.1%

* including own prop book

ISSUE/ISSUER RATING SCALE & DEFINITIONS

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

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 III				
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					
	30-March-2018	BBB-	A-3	Stable	Upgrade	
	31-October-2017	BB+	A-3	Stable	Upgrade	
	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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