

RATING REPORT

Elixir Securities Pakistan (Private) Limited

REPORT DATE:

July 3, 2017

RATING ANALYSTS:

Mohammad Ibad Desmukh
ibad.desbmukh@jcrvis.com.pk

Jazib Ahmed, CFA

jazib.ahmed@jcrvis.com.pk

RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB	A-3
Rating Outlook	Stable	
Rating Date	April 10, 2017	

COMPANY INFORMATION

Incorporated in 1994	External auditors: M/s Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Mohsin Khalid
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Fawaz Valiaani
Elixir Capital Private Limited– 99%	

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>

Elixir Securities Pakistan (Private) Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Elixir Securities Pakistan (Private) Limited is involved in provision of equity and money market brokerage as well as corporate advisory. The company holds Trading Rights Entitlement Certificate (TREC) issued by Pakistan Stock Exchange Limited (PSX) and is a licensed and regulated entity with the Securities and Exchange Commission Pakistan Limited (SECP) and Pakistan Stock Exchange Limited (PSX). ESPL's clients include domestic and foreign financial institutions, corporates, HNWT's and retail investors.

Incorporated in 1994, Elixir Securities Pakistan (Private) Limited (ESPL) is an equity brokerage house possessing Trading Rights Entitlement Certificate (TREC) granted by Pakistan Stock Exchange Limited (PSX). ESPL offers equity and money market brokerage as well as corporate advisory services. The company operates through three branches, one each in Islamabad, Lahore and Karachi with its Head Office located in Karachi.

Till April 30, 2015, ESPL was completely owned by Patek (Private) Limited, a Dawood Group company. Subsequently, ESPL was completely acquired by Elixir Capital (Private) Limited (ECPL), jointly founded by the Chairman and CEO of ESPL namely Mr. Mohsin Khalid and Mr. Fawaz Valiaani, respectively. As a result of the takeover, senior management as well as strategy of the institution has witnessed notable changes.

Rating drivers

- **Governance & Shareholding:** Ratings of ESPL incorporate the governance structure of the company. In line with best practices of corporate governance, 3 independent directors are present on the Board. Senior management comprises individuals having experience in the financial services industry. Given that management team has witnessed changes in key positions; effectiveness of the same will be tested over time.
- **Capitalization & Liquidity:** Assigned ratings take note of reduced equity base inherited by ESPL on account of large dividend payments in previous regime; the same would need to be monitored. Subsequent growth in total equity has been observed in the outgoing year on the back of profit retention and handsome surplus booked on PSX shares. Higher quantum of liquid assets has brought the company's liquidity profile at par with peers. While receivables depicted a decline, the same were noted to be significantly concentrated among top ten debtors signaling credit risk. Assigned ratings also take into account improvement in debt leverage during the outgoing year. Leverage indicators are expected to trend upwards going forward as management plans to increase utilization of running finance facility.
- **Profitability:** While company's revenue base is diversified by income from money market dealing, main drivers of the same are equity brokerage and advisory income. In the outgoing year, while brokerage and corporate advisory income decreased, reduction in expenses led to improvement in efficiency ratio. Going forward, greater revenue is expected to emanate from corporate advisory activities.
- **Policy Framework:** The Company has a Board approved underwriting policy in place with overall and per party exposure limited to 0.4x and 1.5x of total equity at any point in time. Given that management does not plan to undertake investments in the equity market, an investment policy has not been devised to date.

Outlook

Going forward, management intends to focus on improving the company's domestic institutions segment penetration while also growing its international client base. Moreover, management projects greater revenues to emanate from corporate advisory. Launch of foreign exchange brokerage will support diversification of earnings base. In order to pursue its growth objectives, the company is expected to increase its utilization of borrowings. Enhancement of equity base may facilitate the company's business development and overall risk absorption capacity.

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix IV
<u>BALANCE SHEET</u>			
	CY16	CY15	CY14
Trade Debts	334.7	189.2	814.9
Investments	101.0	0.0	57.7
Cash and Bank balances	199.7	145.0	186.9
Total Assets	764.5	564.2	1,395.2
Trade and Other Payables	232.0	194.8	313.9
Long Term Borrowing	-	-	-
Short Term Borrowing	197.5	193.5	734.9
Net Worth	262.6	169.4	325.3
<u>INCOME STATEMENT</u>			
	CY16	CY15	CY14
Total Revenue	305.3	373.1	392.6
Brokerage Income	147.2	162.5	173.6
Advisory Income	141.4	139.6	75.5
Administrative Expenses	209.3	265.2	240.0
Finance Costs	17.9	33.9	66.2
Profit Before Tax	78.1	75.5	86.4
Profit After Tax	57.0	54.0	73.4
<u>RATIO ANALYSIS</u>			
	CY16	CY15	CY14
Market Share (Share Turnover) (%)	2.65%	2.13%	4.73%
Commission Income / Turnover (Paisa/Share)	7.1	11.6	6.6
Liquid Assets to Total Liabilities	55.2%	36.7%	22.9%
Liquid Assets to Total Assets	31.4%	25.6%	17.5%
Debt Leverage (x)	1.3	2.3	3.3
Gearing (x)	0.6	1.1	2.3
Efficiency (%)	76.0%	79.5%	71.5%
ROAA (%)	8.6%	5.5%	5.7%
ROAE (%)	22.9%	21.8%	21.7%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix V

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.

REGULATORY DISCLOSURES		Appendix VI			
Name of Rated Entity	Elixir Securities Pakistan (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				
	10-Apr-17	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.				
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 2017 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				