

RATING REPORT

BMA Capital Management Limited

REPORT DATE:

October 10, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	October 5, 2016	

COMPANY INFORMATION

Incorporated in 1992	External auditors: RSM Avais Hyder Liaquat Nauman & Company – Chartered Accountants
Unlisted Public Limited Company	Chairman of the Board: Mr. Moazzam Mazhar Malik
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Nadir Rahman
Ganjbaksh Mauritius Limited – 49.0%	
Mr. Moazzam Mazhar Malik – 29.0%	
Mr. Muddassar Mazhar Malik – 14.0%	
Ms. Shehla Mazhar – 8.0%	

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>

BMA Capital Management Limited

OVERVIEW OF THE INSTITUTION

BMA Capital Management Limited (BMA) was incorporated in 1992 as an unlisted public limited company. Financial statements for FY15 were audited by M/s Ernst & Young Ford Rhodes - Sidat Hyder, Chartered Accountants. The external auditors are in Category 'A' of SBP's panel of auditors for FY15.

RATING RATIONALE

BMA Capital Management Limited (BMA) is an unlisted public limited company that is primarily engaged in brokerage services for equity, fixed income and interbank foreign exchange. The company also provides Corporate Advisory services; management intends to utilize its strong corporate relationships with clients to drive revenue growth from this department in future.

BMA was established by Mr. Moazzam Mazhar Malik, Mr. Muddassar Mazhar Malik along with three other individuals. Half of BMA's ownership is vested with Ganjbaksh Mauritius Limited (GML) while remaining shareholding is represented by individual investors belonging to the Mazhar Family. The company operates through its head office and three other branches. During FY16, senior management witnessed changes with appointment of a new Chief Executive Officer (CEO) along with a few seasoned professionals. BMA has two wholly owned subsidiaries namely BMA Asset Management Company Limited and BMA Energy Limited.

Rating Drivers:

- Senior management comprises individuals having experience of operating in domestic as well as foreign financial markets. Board of Directors (BoD) includes members with experience in the financial services sector. To improve BMA's control environment, a Board Audit Committee along with an Internal Audit department was formed in 2016.
- Growth in asset base has been observed during FY13-15. This was largely financed by liabilities on account of short term borrowings utilized to finance exposure deposit required by the Exchange. As a result of increased running finance utilization and higher trade payables, debt leverage and gearing were reported higher at 2.0x (FY14: 0.8x) and 1.1x (FY14: 0.2x), respectively at end-FY15. By end of the outgoing fiscal year, total assets reduced to Rs. 1.5b (FY15: Rs. 1.9b) on account of lower short term investments and trade debts, while gearing ratio showcased significant decline. As per management, gearing (based on average of month end balances) will be restricted to 2x of total equity, going forward.
- Despite steady year-on-year earnings, large dividend payments have led to decline in equity base over time. Nevertheless, total equity stands at a satisfactory level vis-à-vis peers.
- Liquidity indicators of the institution exhibit variation on account of payables against share trading. Trade debts are created as per normal course of business; adequate client margin monitoring mechanisms ensure that these are recovered in a timely manner. Concentration in receivables is significant but the same has exhibited improvement on a timeline basis.
- Assigned ratings derive strength from sizeable top line of BMA in relation to peers, which has showcased healthy growth on a timeline basis. In line with increase in revenues, profitability of the company increased to Rs. 138.8m (FY15: Rs. 127.9m; FY14: Rs. 98.1m) during FY16.
- BMA operates a proprietary book which has showcased variation over past three fiscal years, largely in line with market conditions. Ratings of BMA reflect improvement in policy framework of the company with implementation of Board approved investment and underwriting policies. Proprietary book exposure has been capped at 1.5x of total equity with a per scrip limit of 20% of the portfolio size. Underwriting exposure has also been capped at 1.5x of total equity with per party limit of 0.4x in relation to total equity.

Outlook:

Going forward, BMA intends to focus on generating revenue by expanding retail client base. The same may allow the company to improve client granularity. This, along with greater revenue from corporate advisory services will support diversification of core income. Managing growth within the existing risk profile would be amongst the key rating drivers, going forward.

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix IV
BALANCE SHEET			
	30-Jun-16	30-Jun-15	30-Jun-14
Trade Debts	135.9	128.8	114.9
Investments	136.7	246.2	260.4
Cash and Bank balances	554.4	457.2	286.8
Total Assets	1,508.9	1,900.9	1,250.8
Trade and Other Payables	508.1	554.8	348.3
Long Term Loans	100.0	-	-
Short Term Loans - Secured	293.9	673.7	141.9
Net Worth	543.4	631.6	703.8
INCOME STATEMENT			
	30-Jun-16	30-Jun-15	30-Jun-14
Total Revenue	637.7	610.7	467.7
Brokerage Income	474.9	444.8	259.8
Advisory Income	17.2	14.0	12.8
Administrative Expenses	404.8	378.8	330.1
Finance Costs	62.6	45.2	18.2
Profit Before Tax	162.9	186.7	119.4
Profit After Tax	138.8	127.9	98.1
RATIO ANALYSIS			
	30-Jun-16	30-Jun-15	30-Jun-14
Liquid Assets to Total Liabilities (%)	71.6	55.4	100.0
Liquid Assets to Total Assets (%)	45.8	37.0	43.7
Debt Leverage (x)	1.8	2.0	0.8
Gearing (x)	0.8	1.1	0.2
Efficiency (%)	67.3	84.5	111.7
ROAA (%)	8.1	8.1	8.6
ROAE (%)	23.6	19.2	15.0

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

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.

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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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	BMA Capital Management 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				
	5-Oct-16	A-	A-2	Stable	Initial
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.				
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