

RATING REPORT

BIPL Securities Limited

REPORT DATE:

October 13, 2017

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 9, 2017	

COMPANY INFORMATION

Incorporated in 2000	External auditors: RSM Avais Hyder Liaquat Nauman Chartered Accountants
Public listed	Chairman of the Board: Mr. Mansur ur Rehman Khan
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Anwer Ahmed Sheikh
M/s. BankIslami Pakistan Limited – 77.12%	
Mrs. Noor Jehan Bano – 6.53%	
Mr. Mohammad Aslam Motiwala – 7.31%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017)

<http://jcrvis.com.pk/docs/Securities%20Firms%20201706.pdf>

BIPL Securities Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

BIPL Securities (formerly KASB securities) was incorporated in 2000 under the Companies Ordinance 1984 and commenced its operations from January, 2003. The company is a TREC certificate holder of Pakistan Stock Exchange (PSX) and member of Pakistan Mercantile Exchange (PMEX)

Profile of Chairman

Mr. Mansur-ur-Rehman Khan is a Central Banker with over 44 years of experience in different positions including 5 years as Deputy Governor and three years as Banking Mohtasib. He has served on the boards of several financial institutions. He is MA (Mathematics), LLB, and DAIBP.

Profile of CEO

Mr. Anwer Sheikh has over three decades of experience, working for capital markets at various levels, including but not limited to critical and leadership roles for Privatization, Merger & Acquisition, multilateral agencies for Technical Assistance Programs, fund raising through TFC and securitization, IPO, etc. He is a graduate of University of Karachi and holds a Master degree in Business Administration from the Institute of Business Administration, Karachi

Incorporated in 2000, BankIslami Pakistan Limited Securities (BIPLSEC) is principally engaged in provision of equity brokerage services. Brokerage services for fixed income, commodities and forex are also offered, although their revenues are limited. BIPLSEC is a subsidiary of BankIslami Pakistan Limited (BIPL) since 2015. Total shareholding of BIPL in BIPLSEC accumulates to approximately 77.1%, while the remaining shares of the company are vested with individuals.

Rating Drivers

- **Corporate governance and Management profile:** Governance framework implemented at the company is considered sound. One third of the board of directors comprises independent directors. Board of Directors (BoD) includes members with extensive experience in the financial services sector. Management team of the company also includes seasoned professionals as well. Moreover, policy framework of the company has been strengthened and adherence to the same has also been observed.
- **Investments:** Investment portfolio of the company mainly comprises long term strategic investments. The company has already provided for its risky long term investments barring one particular investment in a power company. Long term investments, representing 60% of total equity, carry market risk and are considered illiquid in nature. However, size of listed equity investments is minimal, thereby limiting the market risk emanating from the same. In 2017, the management decided to completely eliminate the market risk in its short term investment by restricting the proprietary book of the company only to ready-future arbitrage transactions.
- **Credit Risk:** Credit risk faced by the company is considered manageable. Around half of the total institutional clients’ trades were facilitated through Institutional Delivery System in HY17. Going forward, management intends to increase the share of MTS and MFS income. Ageing profile of receivables is also considered satisfactory as majority of receivables were within 30 days at end-HY17.
- **Profitability:** In 2015, profitability of BIPLSEC declined considerably in the same year vis-à-vis the preceding year. Brokerage income of the company depicted sizeable decrease on the back of termination of agreement with an international broker dealer. In addition, the high employee turnover rate and provisions related to impairment in investment in a subsidiary resulted in company posting a loss in 2015. However, management has successfully increased the company’s client base, while employee turnover has also been curtailed during the period from 2016 to date. Moreover, commission rates have also witnessed growth during the same period. Consequently, improvement has been observed in brokerage income and net profit since the acquisition.
- **Capitalization and Liquidity:** Equity base of the company decreased significantly in 2015 on account of loss reported by the company. However, the equity base has registered growth since then on the back of retained earnings. Going forward, sponsor support is expected mainly in the form of financing facilities and management expertise. Liquidity profile of the company is considered adequate despite the decline observed in the quantum of liquid assets in relation to total liabilities on a timeline basis. Leverage indicators of the company remain at favorable levels in relation to peers. Going forward, the same are expected to increase since the management intends to utilize additional debt to increase the quantum of business.

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix I
<u>BALANCE SHEET</u>	31-Dec-16	31-Dec-15	31-Dec-14
Trade Debts	197.4	121.8	68.0
Investments	802.9	612.6	881.9
Cash and Bank balances	644.6	547.2	652.6
Total Assets	2,377.3	1,628.7	1,986.9
Trade and Other Payables	1,146.5	541.7	579.9
Long Term Loans	150.0	150.0	150.0
Short Term Loans - Secured	-	-	-
Net Worth	561.9	542.8	1,123.5
<u>INCOME STATEMENT</u>	31-Dec-16	31-Dec-15	31-Dec-14
Total Revenue	331.7	390.9	616.0
Brokerage Income	239.1	242.2	505.8
Advisory Income	0.5	-	2.0
Administrative Expenses	299.3	394.8	466.3
Finance Costs	14.8	16.3	21.0
Profit Before Tax	17.4	(559.0)	129.7
Profit After Tax	19.1	(580.8)	108.7
<u>RATIO ANALYSIS</u>	31-Dec-16	31-Dec-15	31-Dec-14
Commission Income / Turnover (Paisa/Share)	6.5	4.9	6.9.0
Liquid Assets to Total Liabilities	55.3%	83.2%	92.0%
Liquid Assets to Total Assets	30.2%	35.3%	33.8%
Debt Leverage	1.2	0.7	0.6
Gearing	0.1	0.2	0.2
Efficiency (%)	105.3%	116.7%	85.2%
ROAA (%)	1.0%	-30.3%	4.7%
ROAE (%)	2.0%	-54.4%	8.9%

Appendix II: Board of Directors Profile

Name	Profile
Mansur-ur-Rehman Khan – Chairman	Mr. Mansur-ur-Rehman Khan is a Central Banker with over 44 years of experience in different positions including 5 years as Deputy Governor and three years as Banking Mohtasib. He has served on the boards of House Building Finance Corporation, Small Business Finance Corporation, Pak-Kuwait Investment Company, Trade Development Authority as also on the Policy Board of Securities and Exchange Commission of Pakistan (SECP). He has also been actively associated as Chairman/Deputy Chairman of various working group of Islamic Financial services Board during his association as member of its Technical Committee. He is MA (Mathematics), LLB, and DAIBP. He has attended a number of seminars workshop, conferences, and courses related to Banking, Finance, Trade, and Public Administration within the country and abroad.
Anwer Ahmed Sheikh – Chief Executive Officer	Mr. Anwer Sheikh has over three decades of experience, working for capital markets at various levels, including but not limited to critical and leadership roles for Privatization, Merger & Acquisition, multilateral agencies for Technical Assistance Programs, fund raising through TFC and securitization, IPO etc. With a demonstrated track record of structuring several complex and pioneering transactions for capital markets, he has strong “C” level experience of leadership roles and critical thinking ability, has served on Boards of different private and listed companies. Mr. Sheikh is a graduate from the University of Karachi and holds a Master degree in Business Administration from the Institute of Business Administration, Karachi.
Sikander Kasim - Director	Mr. Sikander Kasim is a Fellow member of Institute of Chartered Accountants of Pakistan with over 30 years of experience in cross sector of listed companies. He joined Ford Rhodes Robson Morrow to pursue Accounting Certification after his B.Com from University of Karachi. He was admitted as an Associate Member of ICAP in the year 1991. His work experience revolves around financial and corporate affairs, including the office of Chief Financial Officer. He has major insight of public offering, treasury function and mobilization of funds for the enterprise. Majority of his experience pertains to refinery sector.
Saad Ahmed Madani - Director	Mr. Saad Ahmed Madani is the Regional General Manager for Corporate South for BankIslami Pakistan Limited and has been associated with them since 2007. A Chartered Accountant by qualification he has 15 years’ post-qualification experience in the fields of corporate banking, investment banking and credit analysis.

Khawaja Ehrar ul Hassan – Director	<p>Mr. Khawaja Ehrar ul Hassan is currently working as Country Head of Compliance and legal in BankIslami Pakistan Limited (BIPL). He has also worked as Acting Chief Financial Officer, Company Secretary and Head of Fraud Control in BIPL. Prior to this, he was associated with two leading banks of Pakistan i.e. Allied Bank Limited and United Bank Limited. He has more than thirteen years diversified experience in regulatory compliance, legal, internal control, accounts, finance, corporate matters, fraud investigation, corporate governance and internal audit in Pakistan and middle east. He is voluntarily working as Board of Governor of two reputed professional accounting bodies of Pakistan i.e. Institute of Cost and Management Accountants of Pakistan (ICMAP) and Pakistan Institute of Public Finance and Accountants (PIPFA).</p> <p>He has various academic and professional qualifications as mentioned below:</p> <ol style="list-style-type: none">1. Fellow Cost and Management Accountants of Pakistan.2. Advance Diploma in Management Accounting from CIMA, UK.3. Certified Internal Auditor (CIA) from the Institute of Internal Auditors (IIA), Florida, and USA.4. Qualified Corporate Secretary from the Institute of Corporate Secretaries of Pakistan (ICSP).5. Diploma Associate of the Institute of Bankers (DAIBP). <p>Masters in Economics from the Karachi University.</p>
Natasha Matin – Director	<p>Ms. Natasha Matin is an MBA having over 16 years of diversified banking experience in corporate finance, investment banking and risk management. She has been working with BankIslami since 2007 and is presently heading the consumer and corporate credit division of the bank. Prior to her current assignment she worked with Pak Oman Investment Co. as Vice president/Team leader credit & marketing where she was instrumental in forming the advances portfolio comprising of blue chip corporates. She started off her career at ORIX Group in 1999 where she was part of credit & marketing team there.</p>
Kamal Uddin Tipu - Director	<p>Mr. Kamal Uddin Tipu is a PhD in International Relations & Politics and a Masters in Conflict Transformation from Eastern Mennonite University Harrisonburg VA USA. A diploma in International Human Rights Law and MSc in Civil Engineering having over 28 years of experience.</p> <p>His experience includes member of National Counter Terrorism Authority (NACTA), Acting Chairman PEMRA, Police planning advisor at UNOAU, Deputy Inspector general of police, Islamabad, Sector Commander and Director Planning & Coordination National Highways & Motorway Police, Islamabad.</p> <p>He has written various papers on the subjects of Conflict Analysis, Nonviolence, Negotiations, Dialogue, Peace building, Community Policing, and Restorative Justice as requirement of the Master’s Degree in the field of Conflict Transformation under the Fulbright program at Eastern Mennonite University Virginia, USA. He was a Visiting speaker National Institute of Public Administration and Pakistan Academy for Rural Development Peshawar delivering talks to Nazims and Police Officers on policing issues.</p>
Sohail Sikandar – Director	<p>Mr. Sohail Sikandar is the Chief Financial Officer for BankIslami Pakistan Limited and has been associated with them since May 2016. A Chartered Accountant by qualification he has over 16 years of post-qualification experience in the field of business and strategic planning.</p> <p>He has been Instrumental in securing USD12.9mn in 2009, USD23mn in 2011 and USD 6mn in 2013 capital funding from the Bank Al-Khair Bahrain(formerly Unicorn Investment Bank) and Islamic Corporation for the Development of the Private Sector, Jeddah (ICD). He was an integral part of the team responsible for selection and implementation of Core Banking Application (iMAL-Path Solutions) and successfully</p>

migrated system in record 9 months in 2012.

He has led due diligence projects for proposed merger with potential targets, delivering critical insight, valuation, potential synergies and advisory to the Board and single handedly managed certain delinquent investments. He worked closely with Business Groups in reducing Cost of Funds and recovery from non-performing financings and setting up of strong MIS units.

Appendix III: Management Profile

Name	Profile
<p>Anwer Ahmed Sheikh – Chief Executive Officer</p>	<p>Mr. Anwer Sheikh has over three decades of experience, working for capital markets at various levels, including but not limited to critical and leadership roles for Privatization, Merger & Acquisition, multilateral agencies for Technical Assistance Programs, fund raising through TFC and securitization, IPO, etc. With a demonstrated track record of structuring several complex and pioneering transactions for capital markets, he has strong “C” level experience of leadership roles and critical thinking ability, has served on Boards of different private and listed companies. Mr. Sheikh is a graduate from the University of Karachi and holds a Master degree in Business Administration from the Institute of Business Administration, Karachi.</p>
<p>Zulfiqar Hyder Khan – Chief Operating Officer</p>	<p>Mr. Zulfiqar has over 27 years of experience in various areas of Operations, Fund Management, Risk Management, Financial Reporting, Internal Control, Finance & Accounts, Online Trading and Branch network. He was previously the Chief Operating Officer of several organizations in the Capital Markets sector including JS Global, Shajar Capital, KASBIT, KASB Real Estate Developers, KASB Foundation – Bukhari Traders, IGI Finex Securities, JS Finance Ltd and AKD Securities. Previously, he has also worked in KASB Securities Limited in different positions. He is also credited for launching the online trading platform at JS Global, AKD and IGI Finex Securities and also helped establish several branches across the country within a year. He is an Associate Member of Cost & Management Accountants of Pakistan, Associate Member of Corporate Secretaries of Pakistan (ACIS) and a Commerce graduate from the University of Karachi.</p>
<p>Abdul Aziz Anis, CFA – Director, Head of Equity Brokerage</p>	<p>Mr. Abdul Aziz is an investment management and capital markets specialist with multifaceted plus 21 years of successful track record spread over brokerage, asset management, investment advisory, wealth management and investment banking. His in-depth “C” level experience has led to strong leadership and expertise in establishing, running and growing business not only across product lines but also regionally and globally. He has previously worked as Managing Director Investment Strategist in Asset Management at NCB Capital, Saudi Arabia, which managed close to USD 16bn in AUMS across diverse asset classes. He has actively worked in structuring and launching the largest employee’s savings plans in the MENA region worth approx. USD 3.3bn. He has been the founding Chief Executive Officer of Alfalah GHP Investment Management Ltd, an asset management and investment advisory firm, and the Founding Executive Director of Alfalah Securities Ltd, a full service brokerage house. Earlier, he was the Chief Executive Officer of Elixir Securities (formerly Indosuez W.I. Carr Securities) which was the largest foreign brokerage in the country at the time. Abdul Aziz is a Chartered Financial Analyst (CFA) from the CFA Institute USA and holds a Master degree in Business Administration (MBA Finance) from the Institute of Business Administration (IBA), Karachi.</p>
<p>Sumair H. Malik – Head of International Sales</p>	<p>Mr. Malik has over 16 years capital market experience and is Series 7 and Series 63 qualified. He started his career on Wall Street with Prime Charter New York with a focus on expanding and managing the allocated client base. He later joined Joseph Gunnar & Co. New York as a portfolio consultant determining client asset allocations for lead accounts. Mr. Malik shifted to Pakistan in 2003 and was part of the founding team at AKD Securities Limited in setting up Pakistan’s first online retail platform which revolutionized trading at the Karachi Stock Exchange. He then moved to the buy side of AKD investment management Ltd, and AMZ asset management. In 2007-2008 Mr. Malik rejoined the sell side and his responsibilities at Fortune Securities Limited included empanelment and management of some of the leading domestic financial institutions and high-net-worth individuals.</p>

Syed Iftikhar Ali – Head of Information Technology	Mr. Syed Iftikhar Ali is a qualified professional with extensive work experience of over 20 years in the field of Information Technology. Prior joining to BIPL Securities, he has worked at Inter market Securities as Head of IT, He has worked at KASB Securities Limited as a Senior Manager Applications and managed online trading applications for retail and foreign institutional clients, development of MIS applications and Dashboard to serve business users. He also worked at AppXS Private Limited where he has the privilege to launch Pakistan's first ever online shares trading software for AKD securities and Later Worked as a Project Manager to developed Fund Management System for several Asset Management Companies. He earned his Master's degree in Physics and Computer Science from University of Karachi.
Abid Rehman Qureshi – Head of Money Market and Fixed Income	Mr. Abid Rehman Qureshi holds a Bachelor of Computer Science degree. Mr. Qureshi Joined BIPL Securities Ltd. (Formerly KASB Securities Ltd.) in November 2003 as Dealer Fixed Income. He has over 14 years of experience of dealing in money market and Fixed Income. Prior joining to BIPL Securities he was associated with First Capital Securities, he has also served in Standard Chartered Bank as Business Development Executive.
Muhammad Mustafa – Head of Forex	Mr. Muhammad Mustafa holds a Bachelor's of Science degree from Karachi University. Mustafa Joined BIPL Securities Ltd. (Formerly KASB Securities Ltd.) in December 1998 as Dealer Forex. Since 2004 he is working as a Head of Forex. He has over 18 years of experience of dealing in Forex. Prior joining to BIPL Securities he was associated with Kaiser Financial Services as Dealer Forex, he has also served Al-Maktaba Company Limited (Saudi Arabia) as Senior Sales Executive.
Zafar Ahmed Khan – Chief Financial Officer	Mr. Khan has over 15 years of experience in Internal Audit, Risk Management & Compliance, Company Secretary, Financial & Management Accounting, Management Reporting and Financial Analysis. Prior joining to BIPL Securities, he was associated with Modaraba Al - Mali as Chief Financial Officer since December 2013, he has also served Elixir Securities (Pvt) Ltd., as Head of Finance & Accounts and Head of Risk Management & Compliance. He is an Associate member of Institute of Cost and Management Accountants of Pakistan.
Syed Sameer Abbas Ali, ACA – Head of Internal Audit	Mr. Abbas has over 6 years of experience in External and Internal Audit, Finance, Compliance, Management Reporting and Financial Analysis. Prior to joining BIPL Securities, he was associated with Shajar Capital Pakistan (Private) Limited as Manager – Finance and Compliance since June 2016. Before Shajar, he was working with Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants (AGN International) as Manager – Audit & Assurance since June 2014. He is an associate member of Institute of Chartered Accountants of Pakistan.
Jehanzaib Zafar – Head of Research	Mr. Zafar has a total of 6 years of professional experience of which 4 years is pure sell-side equity research related. He has overall responsibility of leading the research team by focusing on macro and fundamental analysis. His strength includes in-depth knowledge about the local economy and the banking sector. Previously, as part of research team he has also covered other sectors such as energy, textiles, telecom and FMCG. He is well reputed in the market with local and international investors for his astute and timely investment recommendations and ideas. Prior to joining BIPL Research, he has worked in BMA Capital Management as Senior Analyst and in Magnus Investments as an analyst. He has done his MBA in Finance from the Institute of Business Management (IoBM) in 2010 and Bachelors in Computer Sciences in 2008. He is also a CFA Level 3 candidate.

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.

(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 IV				
Name of Rated Entity	BIPL 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					
	09-Oct-17	A-	A-2	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.					
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