RATING REPORT

Pearl Securities Limited

REPORT DATE:
October 26, 2015

RATING ANALYSTS:
Muniba Khan
muniba.khan@jcrvis.com.pk

Ibad Desmukh
ibad.deshmukh@jcrvis.com.pk

RATING DETAILS

	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	BBB	A-3
Rating Outlook	Stable	
Rating Date	October 21, 2015	

COMPANY INFORMATION

Incorporated in 2000	**External auditors:** M/s Junaidy Shoaib Asad, Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Sajid Khan Jadoon
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Sajid Anwar
General Provident and Investment Fund of Khyber Pakhtunkhwa – 39.3%	
Mrs. Fatima Usman – 22.2%	
Ms. Alia Dhedhi – 6.8%	
Mr. Amir Nazeer Dhedhi – 6.8%	
Mr. Muhammad Arfeen Dhedhi – 6.8%	
Mrs. Naik Parveen – 6.8%	

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

Pearl Securities Limited

OVERVIEW OF THE INSTITUTION

Pearl Securities Limited is a public limited company incorporate under the Companies Ordinance, 1984. The company is a TREC holder of Karachi Stock Exchange.

RATING RATIONALE

Pearl Securities Limited (PSL) is an unlisted public limited company that is principally engaged in provision of equity brokerage services to domestic clients. PSL is sponsored by General Provident and Investment (GPI) Fund, established by Government of Khyber Pakhtunkhwa (KP). The fund holds a 39% stake in the company while remaining shareholding is represented by individual investors.

Over the years, PSL has expanded its operations across the country. Currently, the company operates through its head office based in Karachi and six branches in the provinces of Sindh, Punjab and KP. Senior management comprises individuals having experience in the financial services industry. Managerial responsibility is vested primarily with the CEO and an Advisor, indicating significant key person risk. Employee turnover is on the lower side, with a large number of key personnel having been associated with the company for over five years.

Barring FY14, PSL's revenue base is heavily dependent on income from margin financing. This comprises markup earned on in-house financing provided to clients for trading of shares. Following this, revenues generated from its core operating activities represent 39% of the total earning base. Over the last three years, share of brokerage revenue largely emanated from retail clients with commission income from institutions remaining relatively low. Going forward, management intends to focus on improving its retail segment penetration through introduction of new mobile-based services in addition to promotion of its online trading facility.

Volatility of earnings is likely to be lower if greater proportion of revenues is sourced from core business activities such as equity brokerage, financial advisory and underwriting. Going forward, diversification of business activity will be crucial in sustaining a more robust earnings base, thereby offsetting downside risk emanating from the investment portfolio and providing support to the company's overall risk profile.

Total debt stood at Rs. 3.2b (FY14: Rs. 2.5b; FY13: Rs. 2.9b) at end-FY15. Debt largely comprises running finance facilities aggregating Rs. 1.8b, primarily utilized to finance trade debts. Recently, outstanding balances of receivables carried on books declined significantly on account of recovery efforts against in-house financing, a mode which is discouraged on an industry-wide basis. The company was able to improve quality of its trade debts with about 37% of receivables outstanding for more than 14 days, as at end-FY15. Receivables though decreasing are heavily concentrated among top 10 debtors signaling considerable credit risk. Debt structure also includes repurchase borrowings and term finance facilities. Debt leverage of the company declined to 4.6x (FY14: 13.2x; FY13: 14.5x) for FY15; excluding unrealized gain, debt leverage of the company was 11.0x.

During FY15, leveraging was substantially utilized for financing the company's proprietary book. Market value of short term investments increased to 3.1b (FY14: 0.6b; FY13: Rs. 0.9b) partially on the back of unrealized gain reported at Rs. 441.8m (FY14: Loss of Rs. 45.5m; FY13: Loss of Rs. 25.0m). The company's proprietary book is governed by an investment policy that restricts total exposure to 7 times of total equity and per instrument exposure to 50% of the portfolio's value. At end-FY15, the investment portfolio featured sizeable concentration among two listed companies indicating significant exposure to market risk. In case of market downturn, repayment capacity may be negatively impacted. Policies and procedures are well documented, though compliance with the same has not been consistent.

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix I
BALANCE SHEET	**30-Jun-15**	**30-Jun-14**	**30-Jun-13**
Trade Debts	640.90	2,730.28	3,032.92
Investments	3,081.87	608.83	880.80
Cash and Bank balances	109.92	33.47	7.93
Total Assets	4,266.62	3,496.94	4,004.10
Trade and Other Payables	223.52	635.29	741.38
Short Term running finance	2,802.65	2,203.45	2,925.13
Net Worth	766.73	246.37	257.73
INCOME STATEMENT	**30-Jun-15**	**30-Jun-14**	**30-Jun-13**
Brokerage and Commission Income	186.50	189.45	156.09
Administrative Expenses	148.54	149.15	131.88
Finance Costs	292.43	402.07	520.41
Profit Before Tax	99.74	80.73	85.30
Profit After Tax	65.97	40.45	46.78
RATIO ANALYSIS	**30-Jun-15**	**30-Jun-14**	**30-Jun-13**
Market Share (Share Turnover) (%)	8.53%	9.25%	11.22%
Commission Income / Turnover (Paisa/Share)	3.36	2.94	2.50
Liquid Assets to Total Liabilities	90.77%	19.30%	23.72%
Liquid Assets to Total Assets	74.46%	17.94%	22.20%
Debt Leverage	4.56	13.19	14.54
Gearing	4.21	10.28	11.35
Efficiency (%)	33.65%	57.45%	81.53%
ROAA (%)	1.70%	1.08%	1.04%
ROAE (%)	13.02%	16.05%	18.43%

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.

(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 III
Name of Rated Entity	Pearl 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				
	21-Oct-15	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.				
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