

RATING REPORT

Pearl Securities Limited

REPORT DATE:

21 February, 2017

RATING ANALYSTS:

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

Jazib Ahmed - CFA

jazib.ahmed@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB	A-3	BBB	A-3
Rating Outlook	Negative		Stable	
Rating Date	Feb 16, 2017		Oct 21, 2015	

COMPANY INFORMATION

Incorporated in 2000	External auditors: M/s Muniff Ziauddin & Co. Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Sajid Khan Jadoon
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Ms. Farah Zubair
General Provident and Investment Fund of Khyber Pakhtunkhwa – 39.3%	
Mrs. Fatima Usman – 30.7%	
Ms. Alia Dhedhi – 6.7%	
Mr. Amir Nazeer Dhedhi – 6.7%	
Mr. Muhammad Arfeen Dhedhi – 6.7%	
Mrs. Naik Parveen – 6.7%	

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 (PSL)

OVERVIEW OF THE INSTITUTION

Pearl Securities Limited (PSL) was initially formed as a private limited company in 2000. Later, in 2009, it was converted to a public limited entity. PSL provides equity, money market & interbank foreign exchange brokerage, along with underwriting services.

Profile of Chairman

Mr. Sajid Khan Jadoon served the provincial government in various capacities for more than 25 years. Currently, he serves as Secretary Revenue Board in KP.

Profile of CEO

Ms. Farah Zubair has experience pertaining to human resources, corporate planning, project management and change management. Prior to being appointed as CEO, Ms.

Farah Zubair served as Head of Human Resources at PSL. She possesses more than a decade of experience at various brokerage firms.

Financial Snapshot

Net Equity: 1QFY17 – Rs. 954.0m, June'16 – Rs. 568.0m

Net Profit: 1QFY17 – Rs. 5.9m, June'16 – Rs. 34.0m

RATING RATIONALE

Pearl Securities Limited (PSL) is engaged in provision of equity, money market & interbank foreign exchange brokerage, along with underwriting services. Currently, the company operates through its head office based in Karachi and six branches in the provinces of Sindh, Punjab and KP.

Rating Drivers:

- 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.
- During period under review, changes at the Board level included appointment of a new independent director taking total number of directors to 5 (FY15: 4). Senior management comprises individuals having experience in the financial services industry. Changes in senior management included appointment of Chief Executive Officer through internal promotion and recent hiring of a new Head of Research. While a Board Audit Committee (BAC) is present at PSL, an independent internal audit department has not been formed to date.
- Proprietary book has been significantly reduced to Rs. 1.9b (FY16: Rs. 1.8b; FY15: Rs. 3.1b) as at end-1QFY17. At end-1QFY17, the investment portfolio featured sizeable concentration among two listed companies indicating significant exposure to market risk. In case of market downturn, repayment capacity will be negatively impacted.
- Liquidity generated from sale of investments was largely utilized to finance growth in trade debts. Given that a relatively smaller proportion of liquid assets were used for repayment of borrowings, liquid assets in relation to total liabilities depicted decline. In contrast to trend observed in preceding fiscal year, trade debts demonstrated sizeable increase. Concentration in receivables has remained on the higher side; in case of client default, credit risk can translate into market risk for PSL.
- Unrealized gain on investments represents a sizeable amount of total equity; therefore equity base is expected to exhibit significant volatility. Based on adjusted equity (excluding unrealized gain on available for sale (AFS) investments), adjusted gearing and debt leverage though declining, remain on the higher side in relation to peers at 7.4x (FY16: 8.5x; FY15: 10.2x) and 8.7x (FY16: 9.4x; FY15: 11.0x) at end-1QFY17.
- Although operating revenue decreased largely due to decline in income from settlement charges and brokerage commission, profitability was salvaged by lower finance cost and higher realized gains on investments. Income from settlement charges has been reduced significantly; however, the same continues to represent almost half of operating revenue.
- Though commission per share depicted increase on overall basis, equity brokerage income reduced in FY16 on account of lower total volume traded. Given the lower turnover, market share reduced to 5.34% (FY15: 8.64%) during outgoing fiscal year. Customer granularity also depicted weakening during period under review. Management intends to introduce foreign institutions to its client base while continuing to focus on improving its retail segment penetration through promotion of online trading facility.
- Management has communicated that scrip-wise concentration will be reduced further by June 30, 2017, along with resolution of aforementioned issues.

Outlook

Capitalization indicators are encumbered by acute concentration in receivables and investments being largely held in two companies which has direct impact on surplus on AFS and resultantly total equity. Going forward, divestment of scrips with sizeable exposure will be crucial in offsetting downside risk emanating from the investment portfolio. This, along with liquidity generated from recovery of outstanding receivables, may allow the company to reduce its borrowings, thereby improving its leverage indicators and providing support to its overall risk profile. Focus on core income from brokerage would be among the important rating determinants, going forward.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Pearl Securities Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	Quarter 30-Sep-16 (unaudited)	30-Jun-16	30-Jun-15
Trade Debts	1,166.2	1,049.3	640.9
Long Term Investments	15.0	15.0	15.0
Short Term Investments (Prop. Book) (Fair Value)	1,853.0	1,750.1	3,066.9
Cash and Bank balances	138.1	114.5	109.9
Total Assets	3,605.4	3,354.7	4,266.6
Trade and Other Payables	364.4	218.0	229.3
Long Term Borrowings	168.0	368.0	425.0
Short Term Running Finance	2,079.4	2,161.8	2,802.6
Total Liabilities	2,651.4	2,786.7	3,499.9
Accumulated profit	159.0	153.1	173.2
Surplus on Available for Sale Investments	650.8	270.7	449.4
Net Worth	954.0	568.0	766.7
<u>INCOME STATEMENT</u>	30-Sep-16 (unaudited)	30-Jun-16	30-Jun-15
Equity Brokerage Income	31.5	139.3	154.7
Settlement Charges	34.8	179.9	276.0
Operating Revenue	77.5	377.9	491.6
Administrative Expense	35.3	150.6	140.9
Finance Costs	51.6	227.9	292.4
Profit Before Tax	12.4	58.5	99.7
Profit After Tax	5.9	34.0	66.0
<u>RATIO ANALYSIS</u>	30-Sep-16 (unaudited)	30-Jun-16	30-Jun-15
Market Share (Share Turnover) (%)	n/a*	5.3%	8.6%
Commission Income / Turnover (Paisa/Share)	n/a*	5.00	2.94
Liquid Assets to Total Liabilities (x)	75.1%	66.9%	90.8%
Liquid Assets to Total Assets (x)	55.2%	55.6%	74.5%
Debt Leverage (x)	2.8	4.9	4.6
Gearing (x)	2.4	4.5	4.2
Adjusted Debt Leverage (x)**	8.7	9.4	11.0
Adjusted Gearing (x)**	7.4	8.5	10.2
Efficiency (%)	111.3%	98.1%	86.3%
ROAA (%)	0.7%	0.9%	1.7%
ROAE (%)	3.1%	5.1%	13.0%
<i>*n/a: not available</i>			
<i>**total equity excludes unrealized gain on available for sale investments</i>			

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

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

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.

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	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				
	16-Feb-17	BBB	A-3	Negative	Maintained
	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.				
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