

RATING REPORT

BIPL Securities Limited

REPORT DATE:

February 21, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Negative		Stable	
Rating Date	February 19, 2019		October 9, 2017	

COMPANY INFORMATION

Incorporated in 2000	External auditors: RSM Avais Hyder Liaquat Nauman Chartered Accountants
Public Listed Company	Chairman of the Board: Mr. Kamal Uddin Tipu
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Abdul Aziz Anis, CFA
M/s. BankIslami Pakistan Limited – 77.12%	
Mrs. Noor Jehan Bano – 6.53%	
Mr. Mohammad Aslam Motiwala – 7.31%	

APPLICABLE METHODOLOGY(IES)

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

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

BIPL Securities Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

BIPL Securities Limited (formerly KASB Securities) was incorporated in 2000 as a public limited company under the Companies Ordinance 1984 and started its broking operations in January 2003. The company holds a Trading Right Entitlement Certificate (TREC) of Pakistan Stock Exchange (PSX) and is a member of Pakistan Mercantile Exchange (PMEX).

External auditors of the company are 'RSM Avais Hyder Liaquat Nauman Chartered Accountants'. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Profile of Chairman

Mr. Kamal Uddin Tipu is a PhD in International Relations & Politics and a Masters in Conflict Transformation from Eastern Mennonite University Harrisonburg VA USA and MSc in Civil Engineering having over 28 years of experience. 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

Incorporated in 2000, BIPL Securities Limited (BIPLS), formerly known as KASB Securities, is in the business of broking services for more than 25 years. BIPLS caters primarily to equity broking services to both retail and institutional clients with presence in commodity, fixed income and forex segment. Additionally, economic research and corporate financial advisory are other valued added services offered by the company. Previously, the company was under the ownership of KASB Bank; however, with the acquisition of KASB Bank by BankIslami Pakistan Limited (BIPL) in 2015, around fourth-fifth of the shareholding was transferred to BIPL while the remaining shareholding of the company is vested with individuals.

The company's long term investments form the largest proportion (31.9%) of total asset base and comprise strategic investment mainly in Al Jomaih Power Limited (AJPLC). Total shareholding of BIPLS in AJPLC is 1.55% and the investment amounts to Rs. 534.3m. Going forward, upon completion of acquisition of KE by Shanghai Electric Power Limited, management intends to divest the investment.

Key Rating Drivers

Brokerage industry continues to be affected by economic cycles. Declining trend in trading volumes during FY18 and the ongoing year has impacted the topline of brokerage industry

Political uncertainty due to elections, aggressive foreign selling, rising current account deficit and expected slow-down in GDP growth has translated into dismal performance of the benchmark index over the last 18 months. Resultantly, market volumes have posted a noticeable decline during the period. Decline in ready market volumes during FY18 was more pronounced at around 96% for ready market as compared to future volumes where remained stagnant. Given the operating environment, players with efficient and variable cost structures focusing on high margin business and diversification in revenue streams are expected to fare better vis-à-vis peers. Players with large proprietary books have also witnessed losses given weak market performance.

Industry Data (Ready+Future)	Volumes in millions	Value in millions
FY17	100,345	4,756,168
FY18	58,401	2,881,120
Growth in FY18	-42%	-39%
1HFY19	31,182	1,304,415
Annualized growth in 1HFY19 vis-à-vis FY18	7%	-9%

Going forward, focus of brokerage companies is expected to remain on cost rationalization, increased portfolio diversification into derivatives and focus on higher margin business. Moreover, given low base effect of ready market volumes & growing volumes in the future segment and improved valuations post two consecutive years of decline in benchmark index, overall market volumes during FY19 are expected to be higher vis-à-vis FY18.

Strong retail client base remains a competitive edge and provides some sustainability to equity brokerage revenue; however, diversification in revenue stream is limited

BIPLS has a strong retail client base of over 20,000 clients, accounting for majority of the equity brokerage revenue. Retail clientele, in addition to online services, is catered through a branch network of 10 branches spread nationwide. Management has planned to further expand retail operations with the branch network targeted to be doubled over the medium term.

The company provides brokerage services through ready, futures and margin trading. Going forward, management intends to diversify revenue streams. Moreover, in order to activate sizeable retail client base, a call center has also been setup to enhance brokerage volumes by tapping new and inactive clients. Moreover, existing customers will be converted to premium customers through offering value added services.

Highways & Motorway
Police, Islamabad.

Profile of CEO

Mr. Abdul Aziz is an investment management and capital markets specialist with 24 years of experience. He has previously worked as Managing Director Investment Strategist in Asset Management at NCB Capital, Saudi Arabia and as a founding Chief Executive Officer of Alfalah GHP Investment Management Ltd. He also served as the CEO of Elixir Securities. He 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.

Financial Snapshot

Net Equity: Sept 2018:
Rs. 942.9m, Dec 2017:
Rs. 924.9m

Net Revenue: 3QCY18:
Rs. 189.6m, CY17: Rs.
372.3m

Foreign brokerage income of BIPLS have witnessed a significant decline over time due to limited foreign client base and discontinuation of brokerage arrangement with Bank of America Merrill Lynch (BAML); however, with an induction of a new foreign broker dealer, some increase in foreign brokerage is expected during 2019.

Rationalization in expense base has limited the drag on operating profitability. Cost to income ratio has remained persistently high. Overall profitability depicted significant decline due to absence of one-off gains

Brokerage income (primarily retail brokerage) represents major proportion of company's revenues. Given the significant reliance on brokerage income, earning profile of the company remains largely dependent on market volumes. Moreover, commission charged per share also reduced on the back of reduction in scrip prices, resulting in lower contribution in overall brokerage revenue as compared to previous year. On the costs front, stringent cost control measures and rationalization of headcount in back office has facilitated in the reduction of operational expenses. However, the company's cost-income ratio deteriorated from 126.6% in CY17 to 134.3% in 9MCY18 as decline in operating revenues was higher than operating costs. During 9MCY18, the company reported a loss after tax of Rs. 31.5m (9MCY17: profit of Rs. 69.2m). Going forward, financial performance would remain sensitive to the vagaries of local stock market and is subject to risks associated with it.

Capitalization indicators supported by low leveraged capital structure and adequate liquidity profile

Equity base of the company has remained on the lower side on account of accumulated losses over time. Given low market volumes and excess availability of cash, liquidity profile of the company has improved. Total debt profile of the company is long term in nature. In addition to Rs. 150m of long term mushakarah facility acquired from BIPL which is repayable in the form of a bullet payment in December 2020, the company has arranged an intraday funding facility of Rs. 500m from MCB to meet liquidity requirements. Liquid assets in relation to total liabilities increased to 69.2% (FY17: 65.5%) at end 9MCY18. Moreover, leverage indicators of the company remain at manageable levels. Net capital balance remains well in excess of regulatory requirement.

Corporate governance structure

Earlier in 2018, BIPLS experienced a change at the helm, with Mr. Abdul Aziz assuming the office of Chief Executive Officer replacing Mr. Anwer Ahmed Sheikh. Following this, the company carried out changes at the functional level with better division of front and back office to improve reporting line clarity and reduce cost inefficiencies. Hiring has also been undertaken in the research and institutional sales department. Moreover, board level corporate governance of the company is considered sound with requisite committees and independent directors. Board of Directors (BoD) includes members with extensive experience in the financial services sector and the management team comprises seasoned professionals.

FINANCIAL SUMMARY (amounts in PKR millions)				Appendix I
<u>BALANCE SHEET</u>	30-Sept-18	30-June-18	31-Dec-17	31-Dec-16
Trade Debts	96.9	102.7	117.3	197.4
Investments	648.7	682.8	662.7	802.9
Cash and Bank balances	476.9	545.3	498.4	644.6
Total Assets	1,758.1	1,836.1	1,915.9	2,377.3
Trade and Other Payables	665.0	730.9	840.9	1,146.5
Long Term Loans	150.0	150.0	150.0	150.0
Short Term Loans - Secured	-	-	-	-
Net Worth	568.3	586.6	599.9	561.9
<u>INCOME STATEMENT</u>	30-Sept-18	30-June-18	31-Dec-17	31-Dec-16
Brokerage Income	134.8	92.4	230.5	239.1
Advisory Income	-	-	1.4	0.5
Administrative Expenses	232.1	153.8	358.1	299.3
Finance Costs	10.9	7.1	14.2	14.8
Profit Before Tax	(45.3)	(24.3)	82.6	17.4
Profit After Tax	(31.5)	(13.2)	38.0	19.1
<u>RATIO ANALYSIS</u>	30-Sept-18	30-June-18	31-Dec-17	31-Dec-16
Commission Income / Turnover (Paisa/Share)	N/A	4.4	5.4	6.5
Liquid Assets to Total Liabilities	69.2%	76.3%	65.5%	55.3%
Liquid Assets to Total Assets	32.1%	36.6%	33.9%	30.2%
Debt Leverage	1.43	1.50	1.65	2.31
Gearing	0.26	0.26	0.25	0.27
Efficiency (%)	134.3%	129.5%	126.6%	106.0%
ROAA (%)	-1.8%	-0.7%	1.7%	1.0%
ROAE (%)	-3.3%	-1.3%	3.6%	2.0%

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.vis.com.pk/images/policy_ratings.pdf

‘SD’ Rating: An ‘SD’ rating is assigned when 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	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				
	19-February-19	A-	A-2	Negative	Maintained
	09-Oct-17	A-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	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	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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