

**KHADIM ALI SHAH BUKHARI & CO. LTD.****Ratings (January 2003)****Khadim Ali Shah Bukhari & Co. Ltd. (KASB)**

	New	Previous
Long Term	A	A
Short Term	A1	A1

The long-term and short-term ratings are applicable to senior unsecured creditors.

Summary Data- PKR (mln)

	30/06/02	30/06/01
Total Assets	706.2	803.3
Equity	535.3	529.8
Net Income	38.5	1.2
ROA%	5.1	0.2
ROE%	7.2	0.2
Equity/Assets	75.8	66.0

Analysts

Zeeshan Nasrullah
+92 42 586 9504
zeeshan@pacra.com

Faisal Masood
+92 42 586 9504
faisal@pacra.com

RATING RATIONALE Assessment

- The ratings assigned to KASB reflect the continuing low credit risk emanating from the sound capital structure of the company. At the same time, the ratings also take into account the volatility risk in performance arising from stock market fluctuations.
- The company, in line with its strategy of growth and diversification, acquired the majority shareholding in Platinum Commercial Bank in FY2003. The management has decided to merge KASB with the bank. The merger, would enhance the equity base of the bank so as to meet the minimum capital requirements prescribed by SBP. As a result of merger, KASB will cease to exist and all its current operations will be carried on by KASB Securities (Pvt.) Ltd. – a wholly owned subsidiary. Acquisition of Platinum Commercial Bank is a major step taken by KASB towards the goal of becoming a multiple financial service provider.
- The bullish sentiment that surfaced in the 3rd quarter of the FY2002 sustained through out the remaining part of the year. As a consequence of favorable market conditions, the company recovered from the steep decline in profitability observed in FY2001. The strong correlation of the company's profitability and the market movement is also an indication of the company's susceptibility to risk associated with market volatility. The performance of KASB – as measured by the ROE – has considerably improved from last year. The increase in return is mainly attributable to higher brokerage revenue coupled with enhanced returns from trading in Government Securities, with maintenance of other revenue streams. However, as compared to peers, the ROE remains lower.
- Consequent to the company's decision to recognize income from long term investments in subsidiaries and associates under the equity method, it recognized its share of net loss primarily owing to the huge loss incurred by Worldtel Meca, which could not be offset by profits from KASB Leasing and KASB Premier Fund. Subsequent to year-end the company has disinvested its entire stake in KASB Premier Fund Limited. The proceeds of sale were utilized to finance a portion of the substantial investment made in the acquisition of bank.
- Although KASB's performance has shown substantial variability in the past years, its credit quality has remained high. While capital market operations exposes the company to market risk, the strong capital structure provides a comfortable risk absorption capacity. Subsequent to FY2002, the company has increased its gearing primarily due to the funds utilized for the acquisition of bank. However, this does not materially affect the capacity of the company to meet its financial obligations.
- KASB's financial position has been further strengthened by the current rising stock market trends. Brokerage revenue – being the major revenue stream – has a direct linkage with the capital market fluctuations. Performance trends subsequent to year-end also demonstrate improved performance owing to material capital gains on trading of marketable securities and enhanced financial advisory fees. This enhancement in performance provides KASB a cushion against potential losses from stock market fluctuations.

BACKGROUND

- Khadim Ali Shah Bukhari & Co. Ltd. (KASB) continues to be the second largest among the seven corporate brokerage houses listed on the Karachi Stock Exchange in terms of both asset size and equity base. KASB was incorporated as a public limited company in August 1991. The principal shareholders include Mr. Nasir Ali Shah Bukhari, Mr. Arif Ali Shah Bukhari and Sheikh Suleiman Ahmed al Hoqani - an investor from Oman - who between themselves hold approximately ninety percent (90%) of the company's shares. KASB currently operates from offices in Karachi, Lahore and Islamabad.
- The company has six major business segments: equity sales & trading, securities & economic research, fixed income & money market broking, interbank foreign exchange broking, investment advisory and investment banking. KASB also has an agreement with Merrill Lynch (ML) to jointly produce research that is distributed globally under ML's brand name.