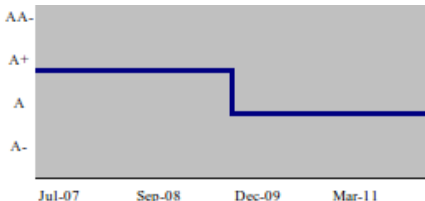


**RATINGS (APRIL 2011)**

**KASB SECURITIES LIMITED (KSL)**

	NEW	PREVIOUS
<b>ENTITY</b>		
Long-term	A	A
Short-term	A1	A1
<b>TFC - Secured, privately placed</b>		
PKR500mln	A+	A+

**LONG TERM RATING HISTORY**



**FINANCIAL DATA**

PKR (mln)

	31-Dec-10	31-Dec-09
Total Assets	2,034.7	2,305.0
Equity	1,063.4	1,018.2
Net Income	68.9	-298.3
ROE (%)	6.62	-26.91
ROA (%)	3.17	-13.08

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**TFC ISSUE**

KSL has issued a secured TFC of PKR 500mln in June 2007 for a tenor of five years, carrying profit at the rate of 6-month KIBOR plus 190bps, payable semi-annually, with no floor and no cap. The major principal will be redeemed in three equal semi-annual installments (33.3% each), starting from June 2011. The TFC has Call Options exercisable in full at any time after 1 year on a coupon date, at 30 days notice at a premium of 0.50% on the outstanding value. The instrument is secured by way of first ranking pari passu charge on all present and future current assets as well as first ranking charge on present and future fixed asset, with 25% margin.

**RATING RATIONALE AND KEY DRIVERS**

- The ratings reflect KSL's established business profile in the capital market brokerage industry emanating from its well-built franchise supported by strong research function and advanced technology infrastructure. However, the ratings are constrained by subdued operational performance and depressed business volumes, a direct consequence of lower stock market turnover. The company has built a strong liquid investment portfolio, providing cushion to the company's upcoming debt obligations. The proprietary trading activities keep the company exposed to market risk, though actively monitored. The ratings continue to draw comfort from the company's association with Bank of America Merrill Lynch (BAML).
- The ratings are dependent on the company's ability to improve profitability from its core business operations while sustaining its market position in the brokerage industry. Any significant weakening in the company's financial profile owing to business losses and/ or impairment on stock market related investments, thereby deteriorating its debt servicing ability, would have negative implications on the ratings.

**ASSESSMENT**

- Capital markets in Pakistan experienced its worst crash in FY09. Subsequently, implementation of floor mechanism affected stock market operations, and daily volumes declined significantly. Although since then it has experienced upward trajectory mainly owing to net foreign investment, stock market volumes could not reach its pre-crisis level. This in-turn has resulted in depressed revenues for the brokerage industry. Though introduction of margin financing may positively impact the trading volumes, this is not the case yet. Meanwhile, operating environment for brokerage houses is expected to remain challenging, further intensified by competition.
- In line with the market dynamics, KSL's brokerage revenue declined significantly. However, it managed to maintain its market share (~7%). Local retail clients contributed 43%, followed by foreign institutions (41%), local institutions (15%), and foreign retail clients (1%). Overall revenues are supported by return on bank deposits and income earned from the company's investment portfolio. The company remained in operational losses for second consecutive year, fueled by further rise in cost structure. However, on account of reversal of a provision subsequent to settlement with its single largest doubtful debtor, the company posted net profitability (PKR 69mln) during 2010.
- Going forward, the company would focus on expanding its local brokerage business by opening four new branches while sustaining its foreign clientele by capitalizing on its association with Bank of America Merrill Lynch (BAML). The company intends to work on various technologies based initiatives to further improve its brokerage operations. Moreover, the company has plans to further strengthen its treasury activities to support its revenue base. Nevertheless, in such a difficult operating environment, management's ability to timely materialize its initiatives would be challenging.
- KSL attains strong liquidity profile owing to its sizeable investment portfolio (58% of equity). During the year, the company has established a new subsidiary with the name of 'Structured Venture (Private) Limited' with the objective to enhance its non-core revenues by investing in commodities, structured products, and real estate. Moreover, the company has increased its non-strategic portfolio. Major investments were made in open-ended income funds and listed TFCs, while equity trading portfolio has been rationalized. Though running an equity proprietary book (max PKR 325mln) gives rise to market risk, the company's expertise in local capital market operations provides comfort. Nevertheless, strict monitoring of designed controls need to be ensured to manage related conflict of interest.
- KSL has adequate risk management systems, but the recent stock market crisis has highlighted the need for strict implementation. The company, while strengthening its risk management framework, is proactively focusing to recover its doubtful receivables (PKR 130.9mln).
- KSL continues to enjoy its long established relationship with BAML. This year the research department has added new sectors under its purview, in addition to starting commodity research. Meanwhile, KSL has a strong technology infrastructure which is expected to help the company to bring in further efficiency in its overall operations.
- KSL maintains strong equity base as compared to most of the peers. The company is moderately leveraged, with a long-term debt of PKR 500mln, major repayments (PKR 332.8mln) of which fall due in 2011. Though revenues from operations are expected to remain subdued over the short-term, comfort is drawn from the company's liquid investment portfolio and from unutilized stand-by lines of credit available from various financial institutions.

**PROFILE**

- KSL, listed on KSE since Aug08, is majority owned subsidiary (77%) of KASB Bank Limited. The KASB group is contemplating changes in holding structure of its various companies that may result in transfer of KSL's ownership from the bank. The company operates through its branches in four cities, Karachi, Lahore, Islamabad and Rahim Yar Khan.
- KSL's seven-member board includes the CEO, Mr. Nadir Rehman. Three of the board members represent KASB Bank, while rest of the members are non-executive. Mr. Nadir joined the company in Jan11 and has over two decades of experience in banking, sales, trading and real estate. A team of experienced professionals supports him.