



The Pakistan Credit Rating Agency Limited

Rating Report

Khadim Ali Shah Bukhari Securities Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-May-2021	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings take into account Khadim Ali Shah Bukhari Securities Limited's (or the "Company") emerging position in the brokerage industry. The ratings incorporate the adequate sponsors' profile, experienced management team and adequate control environment. The Company has recently converted into public unlisted company and is also in process of enhancing its share capital. On governance front, the Company is focusing on improving its Board structure in compliance with CCG. The Company has outsourced its internal audit function and has devised proficient risk assessment procedures. Further, the Company has developed user friendly mobile app and established robust IT infrastructure to provide uninterrupted customer service. The Company has also signed MOU with one of the major microfinance Institute to capture vast universe of retail market. The Company's current market share stood at ~1.5% and the topline of the Company is concentrated to core brokerage income but management is intended to diversify revenue lines through investment advisory and MFS income. The Company is also intending to increase the branch network and has also filled application with PSX in this regard. The Company is engaged in proprietary trading, albeit the quantum of proprietary investment is very low but exposes the Company to market risk. Zero leveraged capital structure, improved liquidity indicators and recovery in efficiency ratios bodes well for the Company. Furthermore, the Company has adequate capitalization levels with the Net Capital Balance (NCB) of ~PKR 183mln as at 1HFY21 and post capital injection the equity of the Company has reached to ~350mln.

The ratings are dependent on the management's ability to strengthen revenue base by augmenting consultancy and advisory services. Retaining market share and sustaining profitability from core operations remain critical. Meanwhile, upholding strong internal controls, sound governance structure, retention of key management personnel and diligent monitoring of risks is important

Disclosure

Name of Rated Entity	Khadim Ali Shah Bukhari Securities Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Broker Entity Rating(Jun-20)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



PROFILE

Legal Structure Incorporated in June 2013 as a private limited company, Khadim Ali Shah Bukhari Securities Limited (or the "Company") became fully operational in 2018. The Company is a licensed TRE certificate holder of Pakistan Stock Exchange. Recently, the Company has converted into public unlisted Company and renamed to Khadim Ali Shah Bukhari Securities Limited (Formerly; Khadim Ali Shah Bukhari Securities Private Limited)

Background In 2013 Mr. Nasir Ali Shah Bukhari, s/o of Mr. Khadim Ali Shah Bukhari, formed a private limited company in the name of Khadim Ali Shah Bukhari (Pvt.) Limited and transferred his shareholding to his son and daughter Mr. Mahmood Ali Shah Bukhari and Ms. Mubashira Bukhari Khawaja in 2019.

Operations The Company is primarily engaged in brokerage business and generate revenue from brokerage Income. The Company also provides advisory services, research services to foreign companies and is also involved in Margin Financing Services.

OWNERSHIP

Ownership Structure Currently, Mr. Mahmood Ali Shah Bukhari and Ms. Mubashira Bukhari holds ~21% and ~29% stake in the Company while remaining stake ~44% lies with Oxford Frontier Capital Limited. The Company is in process of its share capital with fresh injection of capital.

Business Acumen Oxford Frontier Limited is the major shareholder of the Company whose majority shareholding lies with Mr. Ali Farid Khawaja. Mr. Ali is a seasoned professional with more than 15 years' experience in equity research and investments. Mr. Mahmood Ali Shah Bukhari is a well experienced business man and has a BSc in Liberal Studies from University of Waterloo-Canada. Ms. Mubashira is CFA Charterholder, done MSc in Wealth Management from Singapore Management University and MSc in Economics from LUMS. She possesses more than 11 years of experience in portfolio management, fundamental analysis and stock picking in the GEM markets excluding Asia.

Financial Strength The sponsors have sizeable net worth and are injecting capital in the Company with increasing quantum of operations. This also shows the sponsors commitment in case financial need arises.

GOVERNANCE

Board Structure The Company has appointed three directors on board . The Company is in process of improving its Board structure in compliance with Code of Corporate Governance.

Members' Profile The directors are seasoned professionals and possess manifold experiences in the relevant fields. Board's Chairman, Mr. Ali Farid Khawaja is also the Executive Director of the Company. Previously, he was the Partner / Equity Analyst in Autonomous research LLP, London, Group CFO and Director in Safe charge group PLC and VP, Equity research, Capital market Berenberg Bank London. Mr. Mahmood Ali Shah Bukhari is executive director of KASB Securities (Pvt.) Ltd. In addition to this Mahmood Ali Shah Bukhari is the Chairman of the Board at Agro Products and Services. He is also the Co-Founder of Carnama Pvt Limited. He has been serving on the Board of Directors of Sialkot International Airport (SIAL) since 2012.

Board Effectiveness During FY20 four board meetings were held and the participation of all the members was noticeable.

Financial Transparency

MANAGEMENT

Organizational Structure The Company has lean organizational structure and is in emerging phase. All departments are directly reportable to CEO. Currently, the Company operates through two offices in Karachi.

Management Team The Company has a team of seasoned professionals. Mr. A.H. Soomro is MD-Sales of the Company. Previously, he worked as Senior Advisor to Swedish Frontier Markets Asset Manager - Tundra Fonder AB. Ms. Madiha Alam, head of Sales, has more than 15 years of experience in Asian Equity Sales at Macquarie, Daiwa Securities and Deutsche Bank in London. Graduate of University College of London (UCL). Ms. Aimun Baloch is the MD-Ktrade and she is a marketing professional with more than six years of experience in aspects of both marketing and sales. Mr. Muzaffar Iqbal, the CFO, have more than 13 years experience in brokerage and financial industry

Effectiveness There are no management committees or formal system in place to record and address concerns of management.

Control Environment The Company's risk management framework revolves around the risk management committee but the members of committee are also the Board of Directors of the Company and both are executive directors which creates conflict of interest and impairs independence.

BUSINESS RISK

Industry Dynamics FY21 started with marginal gains, boosted Investors' confidence and improved external front on the back of well-managed fiscal and monetary actions by regulatory authorities including ease of doing business and relief policies. The benchmark, KSE-100 index witnessed an upwards trajectory. The index started from 34,422 points and touched the highest point of 46,934 on February 3, 2021 and currently clocked in at 44,901 points posting a positive return of 30%. The traded volumes during 9MFY21 remained elevated over the period at an average of ~269mln shares (SPLY: ~134mln. Shares), depicting increased participation in the equity market led by country's economic rebound and the global COVID-19 vaccine rollout. Foreigners continued to be net sellers and offloaded ~USD 269mln worth of stocks during FY21 period. Going forward, after the global sell off in equities due to the pandemic, it is expected that the foreigners will rebuild their long positions in the months ahead.

Relative Position The Company is an emerging brokerage with current market share at ~1.5% in 1HFY21.

Revenue The Company's operating revenue mainly concentrated to equity brokerage. During 1HFY21 the equity brokerage revenue increased by 171% to PKR 46mln (1HFY20 ~PKR 17mln).

Profitability The Company reported net profit of PKR ~0.6mln in 1HFY21 compared to a profit of ~PKR 4mln in 1HFY20. Operating expenses also followed the upsurge and increased by 104% to ~PKR 52mln in 1HFY21 (1HFY20: ~PKR 26mln), mainly attributable to expansion in employees amidst increasing quantum of operations.

Sustainability The brokerage income is expected to improve with recent upward trend and better performance of stock market. The management's ability to strengthen its supplementary income and maintain its niche will be important.

FINANCIAL RISK

Credit Risk For the assessment of client's credit worthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. The Company has also put in place different risk mitigation measures to determine the scope of the identification and verification requirements and ongoing monitoring based on the risks posed by particular customers by setting transaction limits for higher-risk Customers.

Market Risk The Company has maintained proprietary portfolio but the quantum of short term investment is very minimal i.e. less than 5% of the net equity. The Company has formalized an investment policy statement whereby limits have been defined to mitigate the risks, the compliance department will monitor the limits consistently and any breaches will be reported to the senior management.

Liquidity Risk The liquidity profile of the Company is adequate. At the end of 1HFY21, the liquid assets were 17% of the total asset book (FY20: ~70%) and 1.7x of trade related liabilities (FY20: ~1.3%).

Coverages The Company has a zero leverage capital structure. The Company is engaged in margin financing but It remains ~0.1% of the total revenue. The Company is more focused towards retail clients a is rapidly penetrating in retail based clientele.

Capitalization At end 1HFY20, the Net Capital Balance (NCB) of the Company stood at ~PKR 183mln, which allows the Company to take exposure up to 25x of its NCB. The Company has an equity base of ~PKR 264mln.



PKR mln

Khadim Ali Shah Bukhari Securities Limited

Dec-20

Jun-20

Jun-19

Jun-18

6M

12M

12M

12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	32	152	100	23
3 Other Earning Assets	111	66	30	1
4 Non-Earning Assets	46	360	123	51
5 Non-Performing Finances-net	-	-	-	-
Total Assets	189	579	252	75
6 Funding	19	313	74	17
7 Other Liabilities (Non-Interest Bearing)	105	3	4	-
Total Liabilities	124	316	78	17
Equity	264	263	174	58

B INCOME STATEMENT

1 Fee Based Income	46	45	12	0
2 Operating Expenses	(52)	(64)	(37)	(14)
3 Non Fee Based Income	7	28	18	1
Total Operating Income/(Loss)	1	9	(7)	(13)
4 Financial Charges	(0)	(0)	(0)	(0)
Pre-Tax Profit	1	9	(7)	(13)
5 Taxes	-	(3)	(4)	(0)
Profit After Tax	1	6	(11)	(13)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	14.0%	0.0%	-0.6%	0.0%
Return on Equity (ROE)	0.3%	4.9%	-24.2%	-177.0%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	139.3%	45.4%	69.1%	77.7%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current M	5067.6%	2049663.3%	55855.2%	643771.5%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	17.2%	69.9%	73.3%	50.4%
Liquid Assets / Trade Related Liabilities	168.7%	129.4%	250.3%	225.6%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers	67.1%	87.6%	93.8%	0.0%
Equity Instruments / Investments	61.5%	12.9%	19.2%	45.0%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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