



Lanka Rating Agency

## Rating Report

### Asia Securities (Pvt) Ltd

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#### Rating History

Dissemination Date	Long Term Rating	Outlook	Action	Rating Watch
18-Nov-2024	BBB	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Asia Securities (Private) Limited ("ASPL" or "The Company") is a leading brokerage firm in Sri Lanka with market share in the early double digits in terms of trading volume. The Company's two major revenue components are brokerage income and interest income earned on broker credit. ASPL's revenues remain contingent on variable trading volumes and investor interest in stock market. The Company, being a member of the Colombo Stock Exchange, also engages in proprietary trading and thus is exposed to inherent volatility in the capital markets. The rating reflects ASPL strong capitalization, sponsors' extensive experience in the capital markets, sustained profitability and well managed risk exposure. The board size is adequate with the Chairperson being a non-independent director. Investment and overall strategy is driven mainly by the Chairperson and the Company remains exposed to key-person risk. ASPL remained profitable in turbulent times due to effective investment management. The Company recorded strong profitability on the back of sales of high yielding treasury bonds subsequent to sharp reduction in interest rates. The Company has significant related party exposure (~29% of equity) and during FY24, made a significant investment in its subsidiary. Further capital requirements could strain the Company's financial profile. Other capital market related businesses are held by the sponsors separately to avoid any regulatory complications. The Company's leverage ratio was ~0.6X in FY24 with interest coverage ratio of ~4.0X. The Company recorded a healthy Capital Adequacy Ratio (CAR) of ~3.4X in FY24, which is well above the statutory requirement of 1.2X. Going forward, the Company is expected to sustain its performance, albeit with an element of uncertainty as the equity markets are driven by economic and political factors and investor sentiment.

The rating is dependent on the Company's ability to maintain and further strengthen its market position as a leading stock broker while maintaining its performance trends and capital cushion. Effective rebalancing of portfolio to encounter market dynamics and strengthening governance practices remains important. Any substantial loss due to unfavorable movement in capital markets or otherwise, impacting its risk absorption capacity, would have negative rating implications.

#### Disclosure

<b>Name of Rated Entity</b>	Asia Securities (Pvt) Ltd
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Stockbroker Entity Rating(Jul-24)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-24)
<b>Rating Analysts</b>	Nilum Liyana Arachchi   nilum@lra.com.lk   +94 114 500099



## Lanka Rating Agency

### Profile

**Background** Asia Securities (Private) Limited (“ASPL” or “the Company”) is a limited liability company incorporated and domiciled in Sri Lanka. The Company is registered under the Securities and Exchange Commission as a Stock Broker and Stock Dealer. The registered office and principal place of business of the Company are located on 4th Floor, Lee Hedges Tower, No. 349, Galle Road, Colombo 03.

**Operations** The Company is primarily engaged in the business of stock brokerage and broker credit. The Company also provides research services to its clients. The clientele is divided into three main categories: i) Foreign, ii) Institutional, iii) Retail and HNWI.

### Ownership

**Ownership Structure** The largest shareholder of the Company is West Side Equity Ltd which is 100% owned by the Chairman, Mr. Dumith Fernando. It owns 76.7% of the Company as of 3MFY25. York Street Partners (Pvt) Ltd and J L N Investments (Pvt) Ltd owns 11.9% and 11.4% respectively.

**Stability** The ownership structure does not show any major changes in the recent past. The shareholding pattern is expected to remain stable for the foreseeable future.

**Business Acumen** Mr. Fernando has over three decades of experience in international and local capital markets which also includes experience with global banking firms, where he has held leadership roles across various divisions.

**Financial Strength** The Company's revenue is made up of brokerage fees, interest earned on broker credit, returns on trading, and dividend income from equity investments.

### Governance

**Board Structure** The Board consists of five directors, out of which three are non-executive directors, and one is an independent director. Mr. Dumith Fernando is the Chairman of the Board.

**Members' Profile** The Chairman, Mr. Fernando, has experience in the international and Sri Lankan capital markets, having spent much of his career in global financial centers with global banking firms, JPMorgan Chase and Credit Suisse. The remaining members of the board have experience in investment banking, capital markets, finance, and economics.

**Board Effectiveness** The Board of Directors (BoD) does not have Board Committees. The BoD, from time to time, deliberate on matters falling within their purview.

**Transparency** The External Auditors of the Company, KPMG have issued an unqualified audit opinion pertaining to the financial statements as of FY24.

### Management

**Organizational Structure** The Company has a functional organizational structure where the heads of operations, risk, IT, and sales departments report to the Chief Executive Officer. Whereas, heads of research and human resources departments directly report to the Chairman of the Company.

**Management Team** The management team is headed by the CEO, Mr. Shiyam Subaulla who possesses over 24 years of experience in the industry. The remaining members of the senior management team have experience in investment, finance, economics, and law.

**Management Effectiveness** The Company does not have management or executive committees. The business heads meet to discuss market conditions, client feedback, and other business-related matters on a weekly basis or as and when needed.

**Control Environment** The Company's Board retains the overall responsibility for reviewing and approving the risk management framework. The risk management framework is jointly developed by the CEO, the Head of Legal and Equities Compliance, and the Head of Operations and Risk. All functions are segregated with the Chinese wall in place with clear demarcations between different departments.

### Business Risk

**Industry Dynamics** Sri Lanka's stock brokerage industry has been identified as one that is crowded with fragmented market share and intensifying competition. As many as 28 listed members at the Colombo Stock Exchange is testament to that. The earning from the capital markets business (including broking) depends on the extent of trading activity in the equity markets, which are volatile and are driven by economic and political factors and investor sentiment. Moreover, global factors influence these markets.

**Relative Position** Currently, the Company is holding a leading position in the market, brokering in the early double digits of the total volume of the market on average (in LKR terms). The Company manages around 70,000 trading accounts of clients among which ~10% are active at any given point in time.

**Revenues** The Company's operating revenue in FY24 comprised of brokerage income which witnessing a drop of ~20% when compared to figures from the same period last year. After FY22, the Company's revenue saw a significantly decrease. Direct expenses have also reduced in line with the revenue decline over the years. Gross Margin also reduced to ~64% in FY24 from ~71% in FY22 and ~70% in FY23. Over the years, the contribution from other income to total income has increased. In FY24, other income increased by 3.4 times when compared to FY23. The significant increase in the other income in FY24 is attributable to a gain from the disposal of treasury bonds. The second most significant head in terms of overall contribution towards other income is the interest earned by the Company on the credit provided to the clients under broker credit. During FY24, interest income earned on broker credit made up ~26% of the other income whereas gain on disposal of treasury bonds accounted for ~69% of the other income.

**Cost Structure** In FY24, total expenses increased by ~37.7% when compared to FY23. Administrative expense was the major contributor to the total expense of the Company which increased by ~29% in FY24.

**Sustainability** The Company operates as Sri Lanka's leading stock broker and has won various accolades from well-reputed financial bodies in the form of annual performance awards. Due to regulatory restrictions, the Company has set its focus and efforts on improving its stock brokerage and related services.

### Financial Risk

**Credit Risk** The Company is exposed to certain credit risks due to providing broker credit to its clients. However, due to the presence of collateral in terms of equity securities with sufficient haircuts applied to the valuation, coupled with other risk management procedures in place besides regulatory oversight, such risk is mitigated.

**Market Risk** No investment committee oversees the investment decision or market risk. All the investment-related decisions are made by the Board of Directors. The Company is exposed to significant market risk and interest rate risk due to maintaining a proprietary book along with investments in government securities. Investment in quoted equity securities makes up ~21% of the total assets of the Company, whereas fixed rate instruments make up ~10% of the total assets.

**Liquidity Risk** The Company has maintained a current ratio above 1x over the years. In FY24, the current ratio increased to 1.41x from 1.35x in FY23. Liquid Assets to Total Assets ratio was recorded at ~46.9% in FY24 and ~67.3% in FY23. Trade and other payables make up ~ 59% of the total financial liabilities of the Company.

**Capital Structure** The Company's Capital Adequacy Ratio (CAR) stood at 3.39x as of FY24 which was reduced from a level of 5.10x and 5.82x in FY22 and FY23 respectively. The drop in the CAR ratio is mainly attributable to the increase in non-liquid assets of the Company due to investments made in its subsidiary during FY24. Moreover, the CAR ratio of 3.39x in FY24 remains well above the regulatory requirement of 1.2x.



Asia Securities (Pvt) Ltd  
Stock Broker

Jun-24	Mar-24	Mar-23	Mar-22
3M	12M	12M	12M

## C RATIO ANALYSIS

### 1 Cost Structure

Financial Charges / Total Operating Income/(Loss)

30.3%	24.6%	24.6%	9.4%
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Return on Equity (ROE)

25.6%	57.2%	29.7%	24.5%
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### 2 Capital Adequacy

Equity / Total Assets (D+E+F)

40.0%	38.5%	41.0%	36.8%
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Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)

8.4%	-3.5%	-204.2%	-4190.7%
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### 3 Liquidity

Liquid Assets / Total Assets (D+E+F)

67.0%	68.2%	71.0%	73.4%
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Liquid Assets / Trade Related Liabilities

426.4%	287.6%	365.8%	275.1%
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### 4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers

80.3%	88.7%	84.2%	157.0%
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Equity Instruments / Investments

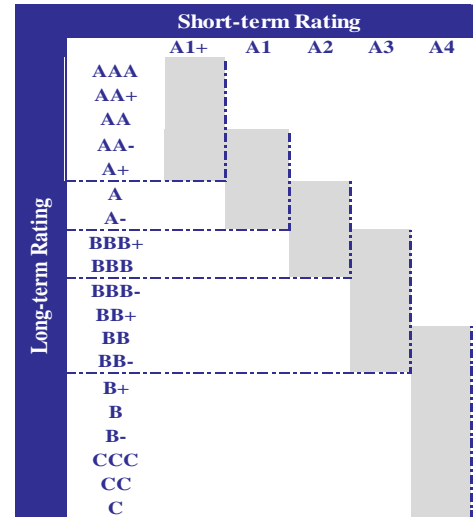
53.0%	46.5%	7.0%	48.5%
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**Credit Rating**

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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	
BB	<b>Moderate risk.</b> 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-	
B+	
B	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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## Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

### Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit-worthiness of any issuer or a specific issue of securities. <https://www.sec.gov.lk/credit-rating-agency/>

### Conflict of Interest

(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)

(2) ii. LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(2) iii. In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

### Restrictions

(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)

(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:

(a) has a business development function of the Credit Rating Agency; or

(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

### Conduct of Business

(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

### Independence & Conflict of interest

(7) LRA 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 LRA's opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity, and independence of its ratings.

(8) LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

### Monitoring and review

(10) For purposes of transparency the LRA will publish sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:

(a) all internal records to support its credit rating opinions;

(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and

(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)

(11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination (Section 53 – Rules applicable to Credit Rating Agencies)

### Probability of Default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

### Proprietary Information

(14) All information contained herein is considered proprietary by LRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without LRA's prior written consent.