



Rating Action

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PACRA UPDATES RATINGS OF ENTITIES IN BROKERAGE INDUSTRY

Equity markets in Pakistan have come under severe pressure since Mar 08. While, in the past, the markets have recovered from sharp dips, this time the scale of the downturn appears more pervasive and substantial. However, threats of systematic failure of the clearing system of the bourses have been subsided through effective settlement of the outstanding CFS issue lately.

The equity brokerage industry has a high correlation with performance of the bourses. Under the current scenario, profitability prospects of the brokerage industry have come under severe pressure. The recent meltdown in the equity market has dampened trading volumes. Further, many market players actively maintained proprietary investments, value of which has significantly declined. In view of substantial erosion in the market value of securities, brokerage houses with inadequate margin arrangements against clients' exposure have suffered losses in the form of write-offs of receivables. The risk is magnified for those entities which have financed their positions through short-term bank lines. The banks, in the current scenario, have restricted lending to the brokerage industry.

A large proportion of the industry players have suffered dent in their financial profile in the current circumstances. Nonetheless, brokerage houses with robust risk management systems, sound capital structure, and good management teams having the ability to rationalize cost structure in the current scenario, and patronage of sound business groups are expected to withstand this difficult operating environment. At the same time, the companies that have restricted their operations only to brokerage services with limited lending exposure and/or investment activities have fared well.

The brokerage houses in PACRA's rating universe, though experiencing pressure on performance in near future, have largely maintained their financial health and ability to timely meet financial commitments, as they possess many of the distinguishing attributes mentioned above.

Brokerage Houses	Rating Action	New	Previous
JS Global Capital	Maintain	AA	AA
KASB Securities	Maintain	A+	A+
IGI Finex Securities	Maintain	A-	A-