



The Pakistan Credit Rating Agency Limited

Rating Report

IGI Finex Securities Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
25-Aug-2023	BFR 2+	Stable	Maintain	-
26-Aug-2022	BFR 2+	Stable	Maintain	-
27-Aug-2021	BFR 2+	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	IGI Holdings Limited fully owns IGI Finex as its subsidiary. The assigned rating incorporates the business acumen and the financial strength of the sponsoring group.
Governance	The board of IGI comprises four directors including the CEO. Two non-executive directors are present along with three board committees for added oversight.
Management and Client Services	A qualified and experienced management team is present with a lean organizational structure. The Company provides sound client services including research and online trading facilities.
Internal Controls and Regulatory Compliance	A robust internal control framework is further boosted by an outsourced internal audit function. Separate departments exist for risk management and compliance functions. The Company has formulated all requisite policies and procedures for an effective control framework.
Business Sustainability	IGI's revenue stream lacks diversification in its topline, primarily concentrated in equity brokerage income and financial income on saving deposits. IGI earned ~PKR 54mln during 1HCY23, as compared to ~PKR 67mln in SPLY. Due to interest income earned from saving deposits, IGI's profit surged to ~PKR 86mln during 1HCY23 compared to ~PKR 5mln during SPLY.
Financial Sustainability	The company operates without a proprietary book, resulting in limited exposure to market risk. The ratings draw comfort from a low-leveraged capital structure. At end-Jun'23, the equity of IGI stood at ~PKR 409mln, while regulatory Liquid Capital Balance stood at ~PKR 244mln.

Key Rating Drivers

During 1HCY23, IGI's brokerage revenue declined on account of the decrease in market volumes. Moving forward, it is imperative for the Company to diversify its revenue streams to better be able to resist market shocks. The management's ability to retain its market share and boost trading volumes remain critical. Moreover, retention of key management and sustainability of profitability continue to remain a prominent factor for ratings.

Disclosure

Name of Rated Entity	IGI Finex Securities Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology Broker Fiduciary Rating(Jan-23)
Related Research	Sector Study Brokerage & Securities(Jan-23)
Rating Analysts	Hassan Ahmad Hassan.Ahmad@pacra.com +92-42-35869504

Profile

Background IGI Finex Securities Limited (IGI' or the 'Company') is a licensed TRE certificate holder of Pakistan Stock Exchange and member of Pakistan Mercantile Exchange. Incorporated in 1994, IGI became a part of the Packages group in 2007.

Operations Headquartered in Karachi, IGI Finex Securities Limited engages in equity, commodities, forex, and money market brokerage, along with advisory and investing services. The company operates through six branches nationwide.

Ownership

Ownership Structure IGI and Packages Group are recognized as leading industrial players, they have demonstrated exceptional growth and performance in areas such as paper and paperboard, packaging, financial institutions, education, and real estate.

Stability IGI Holdings, the parent company, has investments totaling ~PKR 60 billion in insurance, brokerage, and asset management entities as of end-March 2023

Business Acumen For more than 50 years, IGI and Packages Group have maintained a sizable presence in the industrial and services sectors, earning recognition as two of the top industrial players in fields like paper and technology, packaging, paperboard, financial services, real estate, and public education.

Financial Strength The major shareholdings of the sponsors are concentrated in two main companies: IGI Holdings and Packages Limited. The combined asset and equity base of these holdings is around ~PKR 261 billion and ~PKR 110 billion as of 1QCY23

Governance

Board Structure IGI Finex Securities Limited's board consists of four directors, including the CEO and chairman. Among them, two directors are executive, and two are non-executive.

Members' Profile IGI Finex possesses a strong members profile. Syed Abdul Wahab Mehdi is the Chairman of IGI Finex Securities Limited. He completed his Bachelor of Arts (B.A.) from the University of Massachusetts, USA. Previously, he has also worked at Bayer Pakistan (Pvt) Limited, Aventis CropScience Pakistan, AgrEvo Pakistan, Hoechst Pakistan Ltd., and Roussel Uclaf Environmental Health (Pvt.) Limited.

Board Effectiveness To remain in line with best corporate governance practices, the Company has formulated three board committees, i) Audit committee, ii) HR & remuneration committee, and iii) IT Steering committee.

Financial IGI has outsourced its internal audit function to EY Ford Rhodes Chartered Accountants and appointed A.F. Ferguson & Co. Chartered Accountants as the external auditor. The external auditor issued an unqualified opinion on the Company's financial statements for CY22.

Management And Client Services

Organizational Structure The organizational structure of IGI is well-defined and consists of various departments. Each department is headed by experienced individuals who report directly to the CEO.

Management Team The Management Team, led by CEO Mr. Syed Raza Hussain Rizvi, boasts over eighteen years of diverse experience in Management, Corporate Strategy, Business Development, Mergers & Acquisitions, Capital Markets, Financial/Treasury Management, Corporate Governance, and Best Practices Implementation.

Client Servicing Client servicing is a priority for the company. IGI has streamlined digital account opening forms in partnership with PSX and offers various services. Robust reporting mechanisms and digital platforms keep the clients connected with trading.

Complaint Management To ensure customer satisfaction, Complaint Management Department is responsible for addressing and resolving customer complaints. The Compliance Officer oversees this department, maintaining records of all complaints. Periodic reports are submitted to SECP, as per Securities Broker Regulation 2016

Extent Of Automation / Integration The company has invested in cutting-edge technology, acquiring a state-of-the-art trading platform approved by SECP. This platform facilitates seamless and secure trading, even in the face of unexpected events

Continuity Of Operations A comprehensive disaster recovery plan ensures business continuity, with different backup strategies implemented based on specific backup requirements.

Internal Controls And Regulatory Compliance

Risk Management Framework IGI Finex upholds a structured risk management framework to provide trading services. The company's board is responsible for formulating and monitoring risk management policies. Operational risks are identified and monitored through a code of conduct and trading hall SOPs.

Regulatory Compliance Regulatory compliance is diligently maintained by IGI's Compliance Department. The company ensures adherence to PSX requirements, SECP regulations regarding Anti Money Laundering and Countering Financing of Terrorism, professional standards, accepted business practices, and internal standards.

Business Sustainability

Operating Environment FY23 has been a challenging year for the brokerage industry. High political uncertainty along with high inflation crippled the economic condition of the country. Market volumes remained subdued as investors opted for the safer fixed market returns resulting from the high-interest rates prevailing in the economy. However, the start of FY24 has seen a recovery in the confidence of investors. The resumption of the IMF program and the recent steps taken by the government to address long-standing economic issues such as the reduction of circular debt has boosted the market volumes.

Performance The company's revenue derives mainly from equity brokerage and financial income on saving deposits. In 1HCY23, equity brokerage revenue decreased to ~PKR 54mln compared to ~PKR 67mln in 1HCY22, whereby the decrease is in-line with the dip in market volumes. The company reported a net profit of ~PKR 86mln in 1HCY23 irrespective of decreased market volumes as compared to ~PKR 5mln in 1HCY22. The profitability surged due to interest income earned through saving deposits.

Strategy The Company has a long-term strategy to promote retail investment by easing access to investment products and stock market trading with the help of digital initiatives.

Financial Sustainability

Credit Risk Rigorous KYC/AML procedures, including Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD), are employed to assess client creditworthiness.

Market Risk Market risk is mitigated by not operating a proprietary book, and the company's investments are mainly in long-term PSX shares with a valuation of ~PKR 12mln at end-Jun'23

Liquidity Risk The Company's current assets were ~PKR 4.8bln at end-Jun'23 and ~PKR 760mln at end-Jun'22 (CY22: ~PKR 733mln). Furthermore, current liabilities were ~PKR 4.5bln at end-Jun'23 and ~PKR 537mln at end-Jun'22 (CY22: ~PKR 509.8mln). The significant increase is due to an increase of client funds with IGI.

Capitalization At end-Jun'23, the Liquid Capital Balance (LCB) of the Company stood at ~PKR 244mln. The Company has an equity base of ~PKR 409mln at end-Jun'23.

PKR mln

IGI Finex Securities Limited	Jun-23	Dec-22	Dec-21	Dec-20
	6M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	12	13	22	24
3 Other Earning Assets	241	217	260	305
4 Non-Earning Assets	4,727	641	1,035	826
5 Non-Performing Finances-net	-	-	-	-
Total Assets	4,980	871	1,317	1,154
6 Funding	8	9	2	754
7 Other Liabilities (Non-Interest Bearing)	4,562	535	987	84
Total Liabilities	4,570	544	989	838
Equity	409	327	328	316

B INCOME STATEMENT

1 Fee Based Income	55	128	292	226
2 Operating Expenses	(83)	(183)	(224)	(174)
3 Non Fee Based Income	151	66	34	1
Total Operating Income/(Loss)	123	12	102	53
4 Financial Charges	(1)	(2)	(1)	(1)
Pre-Tax Profit	122	10	101	52
5 Taxes	(36)	(1)	(32)	(16)
Profit After Tax	86	10	69	36

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	221.4%	8.0%	34.7%	23.1%
EBITDA/ Revenue	230.5%	14.7%	37.3%	26.2%
Profit / (Loss) Before Interest & Taxes / Total Assets	2.5%	1.4%	7.8%	4.6%

2 Financial Sustainability

Total Investments / Equity	2.9%	4.0%	6.7%	7.5%
NCB / Equity	38.3%	37.0%	34.5%	30.8%
LCB/ Total Equity	59.8%	77.6%	46.5%	26.6%
(Cash & Cash Equivalents + Government Securities) / Total Assets	96.1%	78.2%	86.7%	83.9%
Total Debt / Equity	2.0%	2.8%	0.6%	0.0%

Broker Fiduciary Rating Scale & Definitions

An independent opinion on a broker's quality of management and client services, and sustainability of operations

Scale	Definition
BFR 1	Very Strong. Very Strong quality of management and client services, and very high likelihood of sustaining operations.
BFR 2++ BFR 2+ BFR 2	Strong. Strong quality of management and client services, and high likelihood of sustaining operations.
BFR 3++ BFR 3+ BFR 3	Good. Good quality of management and client services, and above average likelihood of sustaining operations.
BFR 4++ BFR 4+ BFR 4	Adequate. Adequate quality of management and client services, and average likelihood of sustaining operations.
BFR 5	Weak. Weak quality of management and client services, and weak likelihood of sustaining operations.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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.

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2) Conflict of Interest

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- 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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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 | Clause 11-(A)(p).
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- (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)
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- (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)
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- (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)

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- (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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