



The Pakistan Credit Rating Agency Limited

Rating Report

Ismail Iqbal Securities (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Nov-2023	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ismail Iqbal Securities (Pvt.) Limited (“IISPL” or “the Company”) is primarily engaged in the provision of equity brokerage, alongside offering services of investment advisory and research. IISPL enjoys a good market share of ~2.3% whereas the clientele is fairly diversified between institutions/corporates, HNWI/Retail, and foreign. The business model of equity brokers is inherently prone to market volatility. Rising interest rates, political uncertainty, and increasing inflationary pressure during FY23 have impeded investors' sentiments, adversely impacting volumetric activity at PSX. However, as the fiscal year 2024 began, there was a noticeable recovery in investor confidence. During 1QFY24, there was a notable surge in market volumes, and IISPL performed in – line with the overall market. The Company earned a revenue of ~ PKR 23mln during 1QFY24(SPLY: ~PKR 19mln). IISPL reported a net profit of ~ PKR 111mln during 1QFY24 (SPLY: a net loss of ~PKR 1mln). The reasons behind the profit increase are twofold: first, there has been a reduction in administrative expenses. Second, a capital gain of ~PKR 82mln was realized in Sep’23. IISPL has an adequate equity base of ~PKR 299mln at end-Sep’23 (SPLY: ~PKR 242mln). The market risk is negligible as the company has now ceased proprietary book trading, resulting in a favorable impact evident in the financial statements at the end-Sep’23. The Company provides prudent services to its clients in the form of complaint management, access to technical and fundamental reports, and a dynamic reporting mechanism which is a strengthening factor. IISPL has a lean organizational structure, with most department heads reporting directly to the CEO. The management is experienced, and the control framework is satisfactory. Adequate risk management and compliance procedures provide support to the ratings. Furthermore, the governance framework could be further improved by appointing independent directors to enhance oversight. As part of its long-term strategic plans, IISPL is diversifying its revenue streams through underwriting, a shift expected to bolster the Company’s future topline growth. The Company has adopted a discipline as a risk management guide for its underwriting business and the management has express intention to adhere to this discipline.

Going forward, pivotal factors for the rating perspective include improvement in core income, management’s ability to retain its market share, and enhancing the volumes and diversity of revenue to improve its competitive position in the brokerage industry. Meanwhile, upholding sound internal controls, retention of key management personnel and diligent monitoring of risks is important.

Disclosure

Name of Rated Entity	Ismail Iqbal Securities (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Broker Entity Rating(Aug-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Brokerage & Securities(Jan-23)
Rating Analysts	Hassaan Ahmad Hassaan.Ahmad@pacra.com +92-42-35869504



Profile

Background Ismail Iqbal Securities (Pvt.) Limited ('IISPL' or the Company), with its inception in the year 2004, became a Corporate Member of the Karachi Stock Exchange. IISPL is presently a TREC holder of the Pakistan Stock Exchange, as well as an SECP registered Underwriter and Book Runner.

Operations Ismail Iqbal Securities (Pvt.) Limited operates through two branches, both in Karachi. The Company deals in equity trading which is the primary source of revenue, while also engaging in the underwriting of new IPOs and rights issues along with services of MTS/MFS.

Ownership

Ownership Structure IISPL is a family-owned business and the stakes are being divided among family members where the majority of shareholding lies with Mr. Ahfaz Mustafa (65%). The remaining stake is held by his sister Ms. Ayesha Naseem and brother Mr. Azhar Iqbal (17.4% each) while Mr. Muhammad Taufique also holds one share.

Stability Mr. Ahfaz Mustafa has been involved in multiple successful business ventures through his family, indicating his strong business knowledge and experience.

Business Acumen The Company sponsors possess relevant educational backgrounds and extensive industry-specific working knowledge. The overall assessment of the strategic thinking capability of sponsors is comfortable.

Financial Strength The main sponsor, Mr. Ahfaz Mustafa has a sizeable personal net worth along with a well-established and well-known family group.

Governance

Board Structure The Company's board of directors comprises two experienced individuals including the CEO - Mr. Ahfaz Mustafa and a non-executive director - Mr. Muhammad Taufique. The presence of an independent director would strengthen the governance framework.

Members' Profile Both the directors are seasoned professionals and possess manifold experiences in the relevant fields. The board members are skilled and experienced to manage the business operations efficiently.

Board Effectiveness To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee at the board level. The Committee is chaired by the non-executive director.

Transparency Baker Tilly Mehmood Idrees Qamar is the external auditor and is ranked in the 'A' category in the State Bank's list of approved auditors. The auditor has expressed an unqualified opinion on IISPL's financial statements for FY23.

Management

Organizational Structure The Company has a lean organizational structure with the following departments, i) Finance, ii) Compliance, iii) IT, iv) Research, v) Business Development, and vi) Equity Sales. All HODs report directly to the CEO and the Company has created all requisite positions to ensure smooth operations. Separation of functions such as compliance and risk management may bode well for IISPL moving forward.

Management Team Mr. Ahfaz Mustafa is the CEO of the Company since 2008. He has nearly 14 years of experience in the equity market. The management team of the Company comprises seasoned professionals with considerable financial services sector experience. Mr. Fahad Rauf 'Head of Research' is a CFA level two and is an MBA with over 8 years of extensive experience in the areas of Equity Research, Economic Research, Financial Modeling & Valuations.

Management Effectiveness The front and back office software are integrated, resulting in the ability to generate real-time MIS reports for the management to make swift decisions in the dynamic environment.

Control Environment The control environment is considered weak as the same person heads the Compliance and Finance functions. Adding an internal audit department and an independent Risk Management function is encouraged. The depth and scope of the Company's policies need improvement.

Business Risk

Industry Dynamics The brokerage industry faced significant challenges during FY23 due to elevated political uncertainty and soaring inflation, which adversely impacted the country's economic landscape. As a result, market activities were subdued, with investors favoring the security of fixed returns from the higher interest rates prevalent in the economy. However, as FY24 commenced, there emerged a recovery in investor confidence. This can be attributed to the resumption of the IMF program and recent government initiatives aimed at tackling persistent economic issues, including addressing circular debt. Despite these positive trends, the political situation in the country remains unstable, leading many investors to adopt a cautious stance until the conclusion of the elections.

Relative Position The Company primarily caters to HNWI's and has a sustained position in the market, with a market share averaging around 2.3%.

Revenues IISPL's primary source of revenue is equity brokerage. The Company has earned brokerage revenue of ~PKR 22mln in 1QFY24 (SPLY: ~PKR 19mln).

Cost Structure IISPL's administrative expenses decreased from ~PKR 20mln in 1QFY24, to ~PKR 17mln in 1QFY23, where the main decrease is due to a decrease in salaries and brokerage-related expenses. During 1QFY24, the Company earned a net profit after tax of ~PKR 112mln (SPLY: Profit of ~PKR 7mln). This is attributed to the low operating revenue generated during the period under review.

Sustainability The brokerage income is expected to improve with the recent upward tick and better performance of the stock market. The Company also has plans to tap into foreign clientele once market conditions improve, which bodes well for IISPL's future. The management's ability to strengthen its supplementary income and maintain its niche will be important.

Financial Risk

Credit Risk The main credit risk for a brokerage company results from providing clients with margin facilities to trade through leverage. IISPL does not allow clients the facility of leveraged trading apart from a selected few clients with whom they have long-term relationships, thus limiting their credit risk exposure.

Market Risk As at Sep'23, the Company had short-term investment portfolio of ~PKR 17mln (SPLY: ~PKR 177mln), which comprised quoted securities. Proprietary listed securities as compared to company's equity comprised ~6% at end-Sep'23 (SPLY: ~73%). Trading in proprietary book creates conflict of interest, risk of front running and inherently bears market risk. The Company has formulated an investment policy to address the key issues like scrip level and sector level limits.

Liquidity Risk At end-Sep'23, the current assets of ~PKR 388mln adequately covers the current liabilities of ~PKR 112mln.

Capital Structure The Company has an adequate equity base of ~PKR 299mln at end-Sep'23, increasing from ~PKR 242mln at end-Sep'22.



PKR mln

Ismail Iqbal Securities (Pvt.) Limited
Private Limited

Sep-23	Jun-23	Jun-22	Jun-21
9M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	13	22	160	184
3 Other Earning Assets	78	76	54	100
4 Non-Earning Assets	326	224	339	396
5 Non-Performing Finances-net	-	-	-	-
Total Assets	417	322	553	680
6 Funding	2	2	76	75
7 Other Liabilities (Non-Interest Bearing)	116	133	239	283
Total Liabilities	118	134	315	358
Equity	300	188	244	322

B INCOME STATEMENT

1 Fee Based Income	23	64	93	160
2 Operating Expenses	(17)	(84)	(99)	(128)
3 Non Fee Based Income	112	(9)	(52)	43
Total Operating Income/(Loss)	117	(29)	(57)	75
4 Financial Charges	(2)	(19)	(13)	(19)
Pre-Tax Profit	115	(48)	(70)	56
5 Taxes	(4)	(8)	(10)	(11)
Profit After Tax	111	(56)	(80)	45

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	1.7%	-66.7%	-23.6%	25.3%
Return on Equity (ROE)	316.0%	-48.3%	-29.7%	33.0%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	71.8%	58.3%	44.1%	47.4%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long	5723.5%	-140.7%	-423.5%	110.9%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	41.2%	55.6%	71.7%	72.9%
Liquid Assets / Trade Related Liabilities	214.2%	175.5%	197.2%	233.8%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to C	74.0%	36.6%	17.1%	26.0%
Equity Instruments / Investments	100.0%	100.0%	100.0%	100.0%

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+	
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-	
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):

- 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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Rating Team Statements

(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

Restrictions

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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 | 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)
- (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)

Independence & Conflict of interest

- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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