



The Pakistan Credit Rating Agency Limited

Rating Report

Ismail Iqbal Securities (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Aug-2018	A-	A2	Stable	Upgrade	-
23-Jun-2017	BBB-	A3	Stable	Maintain	-
06-Oct-2016	BBB-	A3	Stable	Maintain	-
06-Oct-2015	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The entity ratings takes into account the sponsor's firm commitment to maintain the company's equity in case of erosion and/or to meet any capital call arising from underwriting commitments through injection of funds in a timely manner. The ratings take into account the steps taken by the management to fortify risk management framework through establishment of board level committees and segregating risk and compliance function. The corporate governance framework is adequate and the company plans to induct an independent director on the board in 2HCY18.

The company's revenue stream comprises brokerage income, underwriting business, and net gain from the proprietary trading. The trading in proprietary book creates perception of conflict of interest and there could be high variation in earnings linked to the volatility of the stock market. This risk is mitigated to a certain extent by structured investment policy of the company and limits on proprietary book in relation to the equity (upto 25% of equity) of the company. The equity base of the company has been growing due to accumulation of profits, which provides cushion against losses. The company has adequate capitalization levels with net capital balance of PKR204mln at end June 18.

The rating is dependent on sustainability of profitability through core activities of brokerage and underwriting. The majority of revenue emanates from HNWI's but the management has devised a suitable plan to increase its focus towards local institutional clients. Upholding strong internal controls and diligent monitoring of risks is critical. Erosion in equity base due to losses that is not timely replenished as committed by the sponsor will result in downgrade. Adherence to agreed parameters regarding investment policy and underwriting commitments is crucial.

Disclosure

Name of Rated Entity	Ismail Iqbal Securities (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Security Broker(Jun-18)
Related Research	Sector Study Brokerage / Securities(Oct-17)
Rating Analysts	Shahzaib Khalid shahzaib.khalid@pacra.com +92-42-35869504

ISMAIL IQBAL SECURITIES PRIVATE LIMITED	
Incorporated	2004
Major business lines	<ul style="list-style-type: none"> ▪ Brokerage ▪ Research ▪ Underwriting
Legal status	Private Limited
Number of branches	2

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> ▪ Fragmented industry with 232 brokers (SECP list of registered brokers as on May 21, 2018). ▪ Total number of registered UINs as at March 31, 2018 – 239,988. ▪ Total number of listed scrips as on Aug 24, 2018 - 559. ▪ Stringent regulatory framework governed by SECP, PSX, NCCPL and CDC.

OWNERSHIP

- **Profile** – Ismail Iqbal Securities (Pvt.) Limited, a venture of Ismail Group, was established in August 06, 2004. Its main activities include equity brokerage and underwriting.
- **Ownership** – The company is owned by three individuals, wherein the majority shareholding (65%) lies with the CEO – Mr. Ahfaz Mustafa. The remaining stake is equally held by his elder brother Mr. Azhar Iqbal (17.5%) and sister Ms. Ayesha Naeem (17.5%).

GOVERNANCE

- **Board Structure** – The governance framework needs strengthening. Company’s board comprises two experienced individuals including the CEO and Mr. Azhar Iqbal (non-executive director). Executive decision making rests with CEO while Mr. Azhar Iqbal provides governance oversight.
- **Board Committees** – During FY18, company introduced audit committee at the board level with proper TORs.
- **Board Effectiveness** – During the year, four board meetings were held to review financial performance, discussion on company strategy and underwriting opportunities.
- **Financial Transparency** – Baker Tilly Mehmood Idrees Qamar are the external auditors and are ranked in the ‘A category’ in the State Bank’s list of approved auditors. The auditor has expressed an unqualified opinion on the financial statements for FY17.

MANAGEMENT

- **Organizational Structure** – The company has a simplified organization structure. Key departments include: (i) Institutional sales, (ii) Retail sales, (iii) Research, (iv) Accounts and Finance, (v) Risk and (vi) Compliance.
- **Key Personnel** - Mr. Ahfaz Mustafa is the CEO of the Company since 2008. He has nearly 12 years of experience in the equity market. Lately, Mr. Nazim Abdul Muttalib joined the company as EVP - Head of Broking. He is MPhil Finance and has vast experience in financial services industry.

RISK MANAGEMENT

- **Risk** – Lately, the company separated its risk management and compliance function and hired a designated compliance manager with ~8 years experience.
- **Internal Audit** – Compliance department is also performing the internal audit function.
- **Credit Risk** – The company provides mark-up free credit facility to particular clients with whom strong business ties exists against margin. An automated risk management system in place that halts transactions for a particular client if margin falls below the specified limits.
- **Market Risk** – The company established a formal Investment Policy document for its proprietary book approved by the Board, addressing exposure in different avenues. As at March – 18, the size of the book is PKR 196mln. Trading in proprietary book creates perception of conflict of interest and there could be high variation in earnings linked to the volatility of the stock market. The investment policy addresses key issues like script level and sector level limits and overall size of the investment portfolio.
- **Operational Risk**- Specified margins and inbuilt restrictions in the trading software mitigate both trading and settlement risks. A business continuity plan exists to ensure smooth operations in times of disaster.

BUSINESS RISK

- In terms of value of shares traded, the company enjoys ~1% share in the ready and in futures equity market. During FY17, company’s revenue source originates primarily from brokerage commission (26%) and proprietary book trading (68%). During 9MFY18, company’s commission income stood at PKR 35mln and company made net loss before tax of PKR 49mln.
- The company’s brokerage revenues witnessed an impressive growth of 42% YoY to PKR 66mln as at end-June’ 17 (end-June’ 16: PKR ~47mln).
- During FY17, the finance cost of the company increased by 41% YoY to ~PKR15mln due to utilization of short term borrowing lines. Company’s operating expenses increased by ~24% YoY basis.

- Going forward, Company is fortifying its current strengths while diversifying revenue streams with underwriting. Main focus would remain on HNWI's, while company is also targeting local institutional clients.

FINANCIAL RISK

- The company has an adequate capitalization level with the regulatory Net Capital Balance of PKR 204mln at end June-18. As per regulations, exposure up to 25 times (PKR 5.1bln) can be taken which gives modest capacity to avail orders.
- The company has stand-by lines of borrowing worth ~PKR 525mln from various financial institutions as at end-June'17.
- Company has adequate risk absorption capacity, reflected by its adequate equity base of PKR 397mln at end-March'18.
- The liquid assets were 0.9x of the trade related liabilities as at end-June 2017 (0.8x at end-June 2016).



BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9MFY18 <i>Unaudited</i>	FY17 <i>Audited</i>	FY16 <i>Audited</i>	FY15 <i>Audited</i>
Finances				
Finances	-	-	-	-
Investments	271	272	214	233
	271	272	214	233
Other Assets				
Trade debts	88	122	124	168
Advances, Deposits and Other receivables	284	296	114	73
Others (including Fixed Assets)	22	29	29	17
Total Assets	665	720	482	492
Equity	397	455	272	240
Borrowings	126	138	145	165
Other Liabilities (Non-Interest Bearing)				
Trade Creditors	94	117	60	83
Other Liabilities	48	10	5	4
Total Equity and Liabilities	665	720	482	492

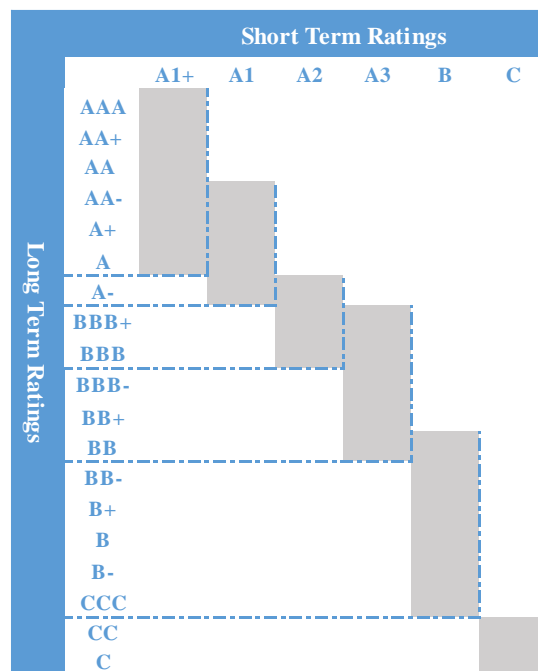
INCOME STATEMENT	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9MFY18 <i>Unaudited</i>	FY17 <i>Audited</i>	FY16 <i>Audited</i>	FY15 <i>Audited</i>
Fee-Based Income				
Fees	35	66	47	63
Operating Cost	(53)	(59)	(48)	(45)
Core Income / (Loss)	(18)	7	(0)	18
Non Fee-Based Income				
Bank Deposits and others	-	-	-	-
Gain on Sale of Investments	(33)	172	31	9
Others	9	34	8	32
Operating Income / (Loss)	(42)	213	39	59
a. Financial Charges	(7)	(15)	(9)	(24)
c. Other Income / (Loss)	-	-	-	2
Profit / (Loss) Before Tax	(49)	198	30	37

RATIO ANALYSIS	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9MFY18 <i>Unaudited</i>	FY17 <i>Audited</i>	FY16 <i>Audited</i>	FY15 <i>Audited</i>
Performance				
Net Profit Margin	-169.2%	277.2%	49.3%	52.1%
Cost-to-Fee Income	485.9%	21.7%	55.1%	43.6%
Cost-to-Total Operating Income	151.5%	89.0%	100.7%	71.8%
Working Capital				
Overdue Accounts Receivable / Total Accounts Receivable	0.0%	27.6%	17.2%	70.8%
Overdue Accounts Receivable / (Short Term Borrowings + Accounts Payable)	-	25.8%	-	-
Accounts Receivable / (Short Term Borrowings + Customer Advances + Accounts Payable)	72.0%	93.6%	59.3%	104.5%
Financial Exposure				
Investments / Equity	90.5%	86.5%	125.8%	167.5%
Equities / Total Capital	49.4%	42.4%	43.0%	46.3%
Fixed Income / Total Capital	13.9%	11.0%	20.7%	0.0%
Liquidity				
Trade Related Assets / Trade Related Liabilities	0.9	1.0	2.1	2.0
Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	0.9	0.8	0.6	0.8
Liquid Investments / Equity	0.5	0.5	0.4	0.8
Capital Adequacy				
Equity / Total Assets	59.7%	63.4%	55.6%	48.7%
Total Debt / Equity	31.8%	30.2%	53.9%	68.9%
Net Capital Balance	-	243	-	-

Credit Rating Scale & Definitions

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.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ 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.	A1	A strong capacity for timely repayment.
A+ 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	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.		
D	Obligations are currently in default.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

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- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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.
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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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- (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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