



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
29-Sep-2021	A-	A2	Stable	Maintain	-
29-Sep-2020	A-	A2	Stable	Upgrade	-
28-Aug-2020	BBB+	A2	Stable	Maintain	-
28-Aug-2019	BBB+	A2	-	Downgrade	-
27-Feb-2019	A-	A2	Stable	Maintain	-
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

Ismail Iqbal Securities (Pvt.) Limited (“IISPL” or the “Company”) is primarily engaged in the provision of equity brokerage service with a modest market share. The Company has also initiated the underwriting service recently to augment its revenue stream. The assigned ratings incorporate the Company’s reviving performance on the back of rising volumes and improved macro-economic indicators. The Company earned brokerage revenue of ~PKR 157mln during FY21 (FY20: PKR 65mln), consequently the losses turned into a profit of PKR 48mln in FY21 (FY20: PKR 37mln). The Company’s equity stood at ~PKR 326mln at end-Jun’21 (Jun’20: ~PKR 278mln) depicting an increase of ~17%. However, the market share of the Company remained stagnant at ~2% during FY21. The Company has a low leveraged structure supported by sponsor’s loan which is well covered by liquid assets. At end-Jun’21, the proprietary book constituted ~56% of the Company’s equity (~PKR 326mln) to stand at ~PKR 182mln. This exposes the Company to a higher level of market risk and also results in conflict of interest. However, the management has implemented adequate measure to cope with this risk. The Company has adequate capitalization levels with the net capital balance standing at ~PKR 153mln at end-Jun’21. 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 strengthening factor. The assigned ratings are reflective of the Company’s lean organizational structure where most of the heads directly reports to the CEO. Seasoned top management, sound risk management and compliance procedures provide support to the rating.

The ratings would remain dependent on meeting the benchmarks assigned by PACRA, i) cessation of proprietary book, ii) increase the equity to PKR 350mln over the near future depending upon the quantum required. The management’s ability to retain its market share and enhance the volumes and diversity of revenue to improve its competitive position in the brokerage industry would be a positive factor. Retention of key personnel, maintaining strong controls, commitment towards agreed parameters and sustainability of profits will remain critical.

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(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504



PROFILE

Legal Structure Ismail Iqbal Securities (Pvt.) Limited (IISPL), 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.

Background Ismail Iqbal Securities (Pvt.) Limited was established in August 06, 2004. The Company acquired the corporate membership in the same year and operates through 2 branches, both in Karachi.

Operations The Company primarily offers equity brokerage services and a major part of core income pertains to equity brokerage. The Company also provides fundamentals based and macro-economic research. The Company has also initiated the underwriting services recently to augment the revenue stream.

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 stakes are held by Ms. Ayesha Naseem (sister - 17.5%) and Mr. Azhar Iqbal (brother - 17.5%).

Business Acumen IISPL's sponsors possess relevant educational background and extensive industry specific working knowledge. The overall assessment of strategic thinking capability of sponsors is comfortable.

Financial Strength The main sponsor, Mr. Ahfaz Mustafa has a sizeable net worth and has issued a personal guarantee in case of equity erosion in IISPL.

GOVERNANCE

Board Structure IISPL's board of directors comprises three experienced individuals including the CEO - Mr. Ahfaz Mustafa. The other director, Ms. Ayesha Naeem is a non-executive director and provides governance oversight. An independent director was also taken on-board during CY-21 which may enhance governance oversight.

Members' Profile Mr. Ahfaz Mustafa received his Bachelors of Science (Hons.) degree with majors in Economics from University of Toronto and started off with risk management and has steadily worked his way to the top position in the company. Mr. Azhar Iqbal earned his Bachelors in Economics from the prestigious University of Pennsylvania, and then went on to do his masters from NYU. He remained associated with the financial markets as a research analyst in New York for three years before returning to Pakistan and joining the Ismail Iqbal Group.

Board Effectiveness IISPL has established an audit committee at the board level. Audit Committee is responsible for overseeing IISPL's significant risk areas assessed by management, Internal or external auditor as well as the related controls to mitigate such risk.

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 FY20.

MANAGEMENT

Organizational Structure There are seven departments, directly reporting to the CEO. IISPL has created all requisite positions to ensure smooth operations.

Management Team Mr. Ahfaz Mustafa is the CEO of IISPL since 2008. He has nearly 12 years of experience in the equity market. Management team of the company comprises seasoned professionals with considerable financial services sector experience. Mr. Fahad Rauf - Head of Research is an MBA and CFA candidate (Level-3) has over 7 years of extensive experience in the areas of Equity Research, Economic Research, Financial Modeling & Valuations.

Effectiveness The front and back office software's are integrated, resulting in generation of real-time MIS reports for the management to make swift decisions in the dynamic environment.

Control Environment To ensure operational efficiency and appraisal of internal controls, the Company has an in-house internal audit department, which implements and monitors the policies and procedures of the Company.

BUSINESS RISK

Industry Dynamics FY21 started with marginal gains, boosted Investors' confidence and improved external front on the back of well-managed fiscal and monetary actions by regulatory authorities including ease of doing business and relief policies. The benchmark, KSE-100 index witnessed an upwards trajectory. The index touched the highest point of 46,934 on Feb 3rd, 2021 and currently stands at 46,636 points. The traded volumes during FY21 remained elevated over the period at an average of ~595mln shares (SPLY: ~197mln. Shares), depicting increased participation in the equity market led by country's economic rebound and the global COVID-19 vaccine rollout. Foreigners continued to be net sellers and offloaded ~USD 269mln worth of stocks during FY21 period. Looking ahead, the market is favorably placed to deliver robust return and underpinned by attractive market fundamentals.

Relative Position IISPL is counted in the top 10 brokerage houses of the country and is responsible for 3.5% - 4% of the average daily volume of the ready and 10% - 15% of the future equity market.

Revenue The Company's operating revenue comprises Commission Income, Capital Gains, Dividend Income, Un-Realized Gain/Loss on marketable securities. During FY21, brokerage commission stood at ~PKR 157mln (FY20: ~PKR 65mln).

Profitability The Company's profit during FY21, elevated to ~PKR 48mln as compared to a profit of ~PKR 0.4mln in SPLY, because of increase in brokerage income.

Sustainability The brokerage income is expected to improve with recent upward tick and better performance of stock market. The management's ability to strengthen its supplementary income and maintain its niche will be important.

FINANCIAL RISK

Credit Risk For the assessment of client credit worthiness, IISPL has implemented due diligence procedures in addition to its KYC. Applicable policies and limits for leverage products have been adopted. An automated risk management system is in place that halts transactions for a particular client if margin falls below the allocated limit. Trade debts are low and their ageing is considered to be manageable.

Market Risk At end-Jun'21, IISPL had short term investment portfolio of ~PKR 189mln (FY20: ~PKR 146mln), which comprised quoted securities. Proprietary listed securities as compared to Company's equity comprised ~58% in FY21 (FY20: ~55%). 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 The liquidity risk for the Company arises from T+2 settlement framework. At end-FY21, the liquid assets were 0.30x of the total asset book (FY20: 0.62x). Liquid assets in relation to total liabilities stood at 0.87x (FY20: 1.6x), which are sufficient to cover the current liabilities of the Company.

Coverages The Company has a low leveraged capital structure supported by sponsor's loan.

Capitalization At end-FY21 the Net Capital Balance (NCB) witnessed YoY increase and currently stood at ~PKR 143mln (FY20: ~PKR 131mln). The equity at end-Jun'21 stood at PKR ~325mln (SPLY: PKR 278mln).



Ismail Iqbal Securities (Pvt.) Limited
Private Limited

Jun-21	Jun-20	Jun-19
12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-
2 Investments	196	153	146
3 Other Earning Assets	91	-	-
4 Non-Earning Assets	395	564	387
5 Non-Performing Finances-net	-	-	-
Total Assets	683	717	532
6 Funding	335	430	235
7 Other Liabilities (Non-Interest Bearing)	22	9	10
Total Liabilities	357	440	245
Equity	325	278	277

B INCOME STATEMENT

1 Fee Based Income	157	65	49
2 Operating Expenses	(128)	(76)	(73)
3 Non Fee Based Income	41	40	(57)
Total Operating Income/(Loss)	71	29	(81)
4 Financial Charges	(19)	(27)	(15)
Pre-Tax Profit	52	2	(96)
5 Taxes	(4)	(2)	(7)
Profit After Tax	47	0	(103)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)
Return on Equity (ROE)

26.9%	92.8%	-18.9%
17.9%	0.3%	5.9%

2 Capital Adequacy

Equity / Total Assets (D+E+F)

47.6%	38.7%	52.1%
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Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)

88.4%	215.8%	-600.4%
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3 Liquidity

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

60.9%	82.4%	74.3%
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Liquid Assets / Trade Related Liabilities

159.7%	222.6%	434.9%
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4 Credit & Market Risk

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

22.2%	9.6%	15.2%
100.0%	100.0%	93.0%

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+	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	
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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

- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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 | 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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