



The Pakistan Credit Rating Agency Limited

## Rating Report

### Ismail Iqbal Securities (Pvt.) Limited | BMR

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Aug-2022	BMR3	-	Stable	Maintain	-
27-Aug-2021	BMR3	-	Stable	Maintain	-
28-Aug-2020	BMR3	-	Stable	Maintain	-
28-Aug-2019	BMR3	-	Stable	Maintain	-
20-May-2019	BMR3	-	Stable	Maintain	-
28-Dec-2018	BMR3	-	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 services with a modest market share. The Company has a lean organizational structure where all the departmental heads report to the CEO. The rating takes note of the experienced and qualified management team and adequate internal control framework. The CFO is also looking after the compliance department which could be made independent to improve its functionality. Formation of an independent risk management department and internal audit department is encouraged. The depth and scope of internal control policies could be enhanced further. The rating accounts for the sound client services including online trading, mobile-app, real-time transaction alerts, complaint resolution process, and access to research reports. The rating takes comfort from the sound financial profile of the main sponsor. The governance framework has room for improvement with the inclusion of qualified and independent directors. Increasing the board size may also result in creation of independent committees at the board level. The Company has a competitive clientele; however, limitations exist in terms of revenue diversification. Following the market trend, the trading volumes of IISPL also took a hit, consequently, the commission on equity brokerage fell to ~PKR 93mln for FY22 (FY21: PKR ~160mln). However, the Company managed to sustain its market share. The bottom-line resulted in a loss of ~PKR 70mln for FY22 mainly due to losses suffered on prop-book trading. The equity stood at ~PKR 252mln at end-Jun’22 reflecting a decline of ~22% when compared with FY21. The assigned rating is supported by a low leveraged capital structure.

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 remains crucial for the sustainability of the assigned ratings. Maintaining a strong financial profile and retention of key human resources remains important.

#### Disclosure

<b>Name of Rated Entity</b>	Ismail Iqbal Securities (Pvt.) Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	Assessment Framework   Broker Management Rating(Jun-22)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-22)
<b>Rating Analysts</b>	Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504



### Ownership

**Ownership Structure** Ismail Iqbal Securities (Pvt.) Ltd (IISPL' or 'the Company') 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 (17.5%).

**Stability** The Company has long-standing loyal customer base of HNWI's which mitigates the risk of external shocks in the market.

**Business Acumen** The Company 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 may provide support in terms of further capital injection when needed.

### Governance

**Board Structure** The Company's board of directors comprises two experienced individuals including the CEO - Mr. Ahfaz Mustafa. The other director, Mr. Muhammad Taufique is a non-executive director and provides 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** The Company has established an Audit Committee at the board level, which may be further enhanced with the inclusion of independent oversight.

**Financial Transparency** The Company has appointed M/s Baker Tilly Mehmood Idrees Qamar - Chartered Accountants as the external auditors who are ranked in the 'A' category of the State Bank's list of approved auditors. The auditor has expressed an unqualified opinion on the financial statements for FY21.

### Management

**Management Team** Mr. Ahfaz Mustafa is the CEO of the company 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 CFA Charter Holder and has over 8 years of extensive experience in the areas of Equity Research, Economic Research, Financial Modeling & Valuations. Mr. Nazim Abdul Mutalib is Head of broking having more than fourteen years of experience in the Pakistan Financial Sector including Capital Market, Banking and Asset Management.

**Organizational Structure** There are seven departments in the Company, which directly report to the CEO. The Company has created all requisite positions to ensure smooth operations.

**Client Servicing** The Company offers multiple account opening mediums. As soon as a trade is executed, the client is notified via email and SMS. The Company communicates account statements and market reports to the clients on regular basis.

**Complaint Management** The Company has provided an electronic form on the face of its website to lodge online complaints and complaints can be made via e-mail and calls.

**Extent Of Automation / Integration** The Company utilizes an ERP called "V Trade". The system is fully synchronized with the market and has complete integration with the back office functions

**Continuity Of Operations** The Company has a well-defined disaster recovery and business continuity plan.

**Risk Management Framework** The control environment is considered weak as the Compliance and Finance functions are headed by the same person. The addition of an internal audit department and an independent Risk Management function is encouraged. The depth and scope of the Company's policies needs improvement.

**Regulatory Compliance** Regulatory Compliance Department ensures that all the regulatory requirements are adhered to. Compliance manager possesses more than 8 years of professional experience. Compliance Head is also performing the Finance function.

### Business Sustainability

**Business Risk** The operating environment of the brokerage industry is directly correlated to the political and economic environment both of which have become highly uncertain in the last couple of months. Since Oct'21, the market volumes are on a declining trend which has impacted the profitability of the equity brokers. The market however is trading at a historically lowest multiples and a hint of any good news on the macroeconomic front may provide a highly needed breather to the declining market trend. Going forward, the market is lucrative and a good volumetric activity is expected once the clarity emerges on the macroeconomic front.

**Business Profile** The Company primarily caters to HNWI's and has a sustained position in the market, with a market share averaging around 1.5% to 2%.

**Revenue And Profitability Analysis** IISPL earned operating revenue of ~PKR 93mln during FY22 (FY21: ~PKR 160mln). The decrease in revenue is a result of a combination of historic market volume highs during FY21 and the subsequent significant market slowdown during FY22. The Company's revenue line is concentrated to equity brokerage. Diversification in revenue is encouraged. The Company made a loss after tax of ~PKR 70mln in FY22 (FY21: Profit of ~PKR 45mln). The losses emanated from realized (~PKR 50mln) and unrealized (~PKR 31mln) losses from prop-book.

### Financial Sustainability

**Credit Risk** The main credit risk for a brokerage company results from providing clients margin facilities to trade through leverage. IISPL as a matter of policy does not allow clients the facility of leveraged trading or the T+2 practice that is common in the industry, apart from a select few clients with whom they have long-term relationships, thus limiting their credit risk exposure.

**Market Risk** At end-Jun'22, the Company had prop-book investment of ~PKR 153mln (Jun'21: ~PKR 182mln), which comprised of quoted securities. Proprietary Book as compared to the Company's equity comprised ~61% at end-Jun'22 (Jun'21: ~56%).

**Liquidity Profile** At end-Jun'22, the current assets of ~PKR 518mln adequately covers the current liabilities of ~PKR 303mln. The Company also has ~PKR 475mln as running finance facilities available from banks to cover any exposure or cashflow requirements, of which ~PKR 74mln was utilized at end-Jun'22.

**Financial Risk** ISPL has a weak capitalization level with regulatory Net Capital Balance (NCB) standing at ~PKR 59mln at end-Jun'22, decreasing from ~PKR 149mln at end-Jun'21. The decrease in NCB is a result of ~PKR 125mln decrease in the current assets of the Company from end-Jun'21 to end-Jun'22, with the major decrease being in exposure margin deposit, cash and bank balances and trade receivables. While the equity stood at ~PKR 252mln at end-Jun'22, declining from PKR ~322mln at end-Jun'21.



PKR mln

Ismail Iqbal Securities (Pvt.) Limited  
Private Limited

Jun-22	Jun-21	Jun-20	Jun-19
12M	12M	12M	12M

#### A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	160	184	153	135
3 Other Earning Assets	55	100	43	30
4 Non-Earning Assets	345	396	521	356
5 Non-Performing Finances-net	-	-	-	-
<b>Total Assets</b>	<b>560</b>	<b>680</b>	<b>717</b>	<b>522</b>
6 Funding	76	75	165	144
7 Other Liabilities (Non-Interest Bearing)	232	283	275	101
<b>Total Liabilities</b>	<b>308</b>	<b>358</b>	<b>440</b>	<b>245</b>
<b>Equity</b>	<b>252</b>	<b>322</b>	<b>278</b>	<b>277</b>

#### B INCOME STATEMENT

1 Fee Based Income	93	160	65	49
2 Operating Expenses	(91)	(128)	(76)	(73)
3 Non Fee Based Income	(52)	43	40	(57)
<b>Total Operating Income/(Loss)</b>	<b>(50)</b>	<b>75</b>	<b>29</b>	<b>(81)</b>
4 Financial Charges	(13)	(19)	(27)	(15)
<b>Pre-Tax Profit</b>	<b>(63)</b>	<b>56</b>	<b>2</b>	<b>(96)</b>
5 Taxes	(8)	(11)	(2)	(7)
<b>Profit After Tax</b>	<b>(70)</b>	<b>45</b>	<b>0</b>	<b>(103)</b>

#### C RATIO ANALYSIS

##### 1 Cost Structure

Financial Charges / Total Operating Income/(Loss)

Return on Equity (ROE)

-26.8%	25.3%	92.8%	-18.8%
-11.1%	17.2%	0.3%	6.3%

##### 2 Capital Adequacy

Equity / Total Assets (D+E+F)

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

45.0%	47.4%	38.7%	53.1%
-4.73	1.11	2.16	-6.01

##### 3 Liquidity

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

Liquid Assets / Trade Related Liabilities

22.6%	25.1%	5.7%	53.1%
64.0%	80.5%	15.5%	304.9%

##### 4 Credit & Market Risk

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

Equity Instruments / Investments

17.3%	26.0%	9.6%	15.2%
4.4%	3.8%	4.6%	12.7%

**Broker Management Rating**

An independent opinion on the quality of management and services provided by a broker

Scale	Definition
<b>BMR 1A</b>	<b>Excellent.</b> Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++</b> <b>BMR 1+</b> <b>BMR 1</b>	<b>Strong.</b> Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++</b> <b>BMR 2+</b> <b>BMR 2</b>	<b>Sound.</b> Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++</b> <b>BMR 3+</b> <b>BMR 3</b>	<b>Adequate.</b> Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++</b> <b>BMR 4+</b> <b>BMR 4</b>	<b>Inadequate.</b> Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak.</b> Weak regulatory compliance and business practices.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> 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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(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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- (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)

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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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- (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)

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