



The Pakistan Credit Rating Agency Limited

Rating Report

Ismail Iqbal Securities (Pvt.) Limited | BMR

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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

The ratings are reflective of company's reviving performance on the back of hefty traded volumes and improved macro economic factors. The company has a modest market share in the brokerage industry. The company's services mainly comprise equity brokerage wherein the Company has competitive institutional clientele. The ratings incorporate the company's lack of diversification in revenue streams. The assigned rating takes into account the company's high exposure to market risk due to its proprietary book, which may indicate conflict of interest but the management has implemented adequate measures to cope with this risk. The company has lean organizational structure with most of the heads reporting directly to CEO. Seasoned top management, sound risk management and compliance procedures provides support to the rating. Furthermore, the company has adequate capitalization levels with the net capital balance of ~PKR 153mln at end Jun-20. The company has a moderate leveraged structure. The debt is well covered by liquid assets. However, the equity of the company has eroded significantly due to continuous losses.

The ratings are dependent upon the persistent adherence of Board of Directors (BoD) in compliance with agreed parameters, management's efforts to improve market share in volume and value. Meanwhile, strong BoD framework, insightful monitoring of market risk and liquidity management remains imperative. Retention of key management personnel and continuous improvement in customer servicing tools will bode well for the company. Meanwhile, upholding strong internal controls and diligent monitoring of risks is important.

Disclosure

Name of Rated Entity	Ismail Iqbal Securities (Pvt.) Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Methodology BMR(Jun-20)
Related Research	Sector Study Brokerage & Securities(Jan-20)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Ownership

Ownership Structure The Ismail Iqbal Securities (Pvt.) Ltd. is a family owned business and the stakes are being divided into three siblings where the majority of shareholding lies with Mr. Ahfaz Mustafa (65%). The remaining stake is held by his elder brother Mr. Azhar Iqbal (17.5%) and sister Ms. Ayesha Naseem (17.5%).

Stability In the wake of COVID-19 recent initiatives from SECP to support the industry should be beneficial for industry participants. Given the bullish trend of stock market, the core brokerage income of the Company is likely to increase amidst increased traded volumes of bourse.

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 has issued a personal guarantee in case of equity erosion in the company.

Governance

Board Structure The Company's board of directors comprises two experienced individuals including the CEO - Mr. Ahfaz Mustafa. The other director, Mr. Azhar Iqbal is a non-executive director and provides governance oversight. However there is room for improvement through induction of independent director on board.

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 with proper TORs.

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 FY19.

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. Sateesh Balani '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 company has established adequate risk management framework and has implemented proper policies of KYC and client due diligence(CDD). The company has also formulated its Investment Policy Statement (IPS), underwriting, corporate finance and advisory policy, approved by the board. Investment and underwriting limits are clearly defined in related policies. The company has formal compliance department, headed by a well-qualified compliance manager. The department ensures that all the regulatory requirements are fulfilled on timely basis. However, no formal compliance manual is formed yet.

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

Business Sustainability

Business Risk The unprecedented steps of Government of Pakistan (financing incentives, down & mid-stream energy reforms, construction incentive) to counter the effects of COVID-19 crisis and slew of policy actions geared the confidence on sustainability of economic recovery and solidifying investor sentiment. The benchmark KSE-100 index rose by ~17% from FY20 to date with an upsurge of average traded volume by ~117% to ~294mln (FY20 ~136mln). Domestic flows completely decoupled from foreign flows, where selling persisted and witnessed an outflow of USD ~59mln from FY20 to date. Going forward, based on medium term expectations of earnings recovery, bulls are likely to continue dominating the market in the short run amidst significant reduction in average positive cases of COVID-19. However, medium to long run trend is dependent upon developments around COVID-19 and restart of the IMF program and the conditions associated with it (tariff hikes, measures for meeting revenue target etc.)

Business Profile Main activities of the company include brokerage, research and advisory. In terms of value of traded shares, the company enjoys ~2% market share in the ready and futures equity market

Revenue And Profitability Analysis The Company's operating revenue comprises Commission Income, Capital Gains, Dividend Income, Un-Realized Gain/Loss on marketable securities. During FY20, brokerage commission stood at ~PKR 65mln (FY19: ~PKR 49mln). However, the total operating income of the Company significantly rose to ~PKR 106mln in FY20 as compared to ~PKR -8mln in same period last year, mainly on the account of hefty traded volumes and splendid return on the bourse. The Company has posted ~PKR 12mln capital gain and ~PKR 21mln in terms of un-realized gain on short term investments. The Company's profit during FY20, elevated to ~PKR 6.5mln as compared to the loss of ~PKR 103mln in SPLY, because of increase in unrealized gain on investment. The loans booked on high interest rates continue to possess a major challenge to the bottom-line of the Company.

Financial Sustainability

Credit Risk For the assessment of client credit worthiness, the company 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 As at FY20, the Company had short term investment portfolio of ~PKR 131mln (FY19: ~PKR 150mln), which comprised quoted securities. Proprietary listed securities as compared to company's equity comprised ~46% in FY20 (FY19: ~48%). 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 Profile The liquidity risk for the Company arises from T+2 settlement framework. At the end of FY20, the liquid assets were 0.57x of the total asset book (FY19: 0.45x). The Company has increased the approved bank lines by PKR 2mln to ~PKR 735mln, (FY19: 535mln). Liquid assets in relation to total liabilities stood at 1.11x (FY19: 1.14x), which are sufficient to cover the current liabilities of the Company.

Financial Risk The company's total debt stood at ~61% of its equity at FY20 (FY19: ~48%). The debt comprises short-term borrowings as well as loan term loan from director of ~PKR 9mln. At end FY20 the Net Capital Balance (NCB) of the company witnessed YoY decline and currently stood at ~PKR 153mln (FY19: ~PKR 195mln). The equity of the Company witnessed erosion YoY due to continuous losses and currently stood at PKR ~284mln. The strategic decision of the board members is to increase the equity by internally generated profits on account of recuperate stock market position and expected bull-run in upcoming years or in case of need the sponsors will inject capital in the Company.

**ISMAIL IQBAL SECURITIES PRIVATE LIMITED
BALANCE SHEET**

As at

A. EARNING ASSETS
a. Finances

1. Margin Financing
2. Ready Futures (Spread Transactions)

b. Investments

1. Deposits with Banks and other institutions
2. Govt. Securities and Money Market Fund
3. Debt Securities & Income Funds
4. Long-Term
 - i) Listed Equities
 - ii) TREC
5. Short-Term
 - i) Listed Equities
 - i) Takaful

Total Earning Assets
B. NON-EARNING ASSETS

1. Cash and Bank Balances-Own Funds
2. Cash and Bank Balances-Client's Funds
3. Advance Tax
4. Accounts Receivable
5. Advances, Deposits and Other receivables
6. Fixed Assets

Non-Earning Assets
C. TOTAL ASSETS
D. Funding
1. Commercial

- i) Advances from Customers
- ii) Trade paybales

2. FIs

- i) Short-term Borrowings
- ii) Current Maturity of Long Term Debt
- iii) Long-term Borrowings

Current Liabilities
E. Other Liabilities

1. Borrowings
2. Trade Paybales
3. Other Liabilities (staff gratuity, Accrued mark-up)
4. Provision for Taxation

Other Liabilities
F. EQUITY

1. Share Capital
2. Reserves:
 - i. Statutory Reserve
 - ii. Capital Reserve
 - iii. Reserve for Bonus Shares
 - iv. Revenue Reserve
 - v. Unappropriated Profit

Pure Equity

3. Surplus/(Deficit) on Revaluation of Investments
3. Unclaimed dividend

Total Equity
G. TOTAL LIABILITIES & EQUITY
H. CONTINGENT LIABILITIES

	30-Jun-20 FY20	30-Jun-19 FY19	30-Jun-18 FY18	30-Jun-17 FY17
	Un-audited	Audited	Audited	Audited
	0	0	0	79
	0	0	0	0
	0	0	0	79
	197	165	51	18
	0	0	0	0
	0	0	0	0
	16	10	60	60
	3	3	3	5
	131	150	71	137
	7	7	7	7
	353	335	191	226
	353	335	191	306
	0	0	0	0
	207	66	72	50
	48	50	45	45
	42	36	83	43
	49	50	72	251
	20	22	21	24
	366	224	293	414
	719	558	485	720
	0	0	0	0
	234	71	91	116
	234	71	91	116
	171	149	6	134
	0	0	2	0
	9	2	0	0
	180	151	8	134
	414	222	99	251
	0	0	0	0
	0	0	0	0
	21	23	6	14
	0	0	0	0
	21	23	6	14
	347	347	347	347
	0	0	0	0
	0	0	0	0
	0	0	0	0
	0	0	0	0
	(63)	(32)	34	109
	(63)	(32)	34	109
	284	315	381	455
	0	0	0	0
	0	0	0	0
	284	315	381	455
	719	558	485	720
	0	0	0	0

ISMAIL IQBAL SECURITIES PRIVATE LIMITED
INCOME STATEMENT

For the period ended

	30-Jun-20	30-Jun-19	30-Jun-18	30-Jun-17
	FY20	FY19	FY18	FY17
	Un-audited	Un-audited	Audited	Audited
1. Fee-Based Income				
a. Advisory Fees	0	0	0	0
b. Commission / Underwriting	0	0	0	0
c. Brokerage	65	49	40	66
d. Others (including MFS)	3	7	9	1
	68	57	49	67
2. Operating Expenses				
a. Personnel Expenses*	(31)	(34)	(31)	(34)
b. Other Non-interest/Mark Up Expenses*	(40)	(39)	(41)	(25)
	(71)	(73)	(72)	(59)
3. Brokerage Income / (Loss)	(3)	(16)	(24)	8
4. Non Fee-Based Income				
a. Finances	0	0	0	0
a. Placements (including Reverse REPO/COI/CFS)	0	0	0	0
b. Bank Deposits and Margin finance	0	0	9	0
	0	0	9	0
5. Other Income				
c. Dividend Income	5	3	9	0
d. Gain on Sale of Investments	12	(29)	(33)	172
e. Surplus/(Deficit) on Revaluation of Investments	21	(39)	(10)	15
f. Share of profit of subsidiaries/associates	0	0	0	0
g. Others	0	0	0	0
	38	(65)	(34)	186
<i>Non-fee based + Other Income</i>	38	(65)	(25)	186
6. Total Operating Income / (Loss)	35	(81)	(49)	194
7. Financial Charges	(28)	(15)	(9)	(15)
8. Other Income / (Loss)	0	0	0	19
9. Profit / (Loss) Before Tax	7	(96)	(58)	199
10. Taxes	(0)	(7)	(17)	(15)
11. Net Income	6	(103)	(75)	184

**ISMAIL IQBAL SECURITIES PRIVATE LIMITED
RATIO ANALYSIS**

	30-Jun-20	30-Jun-19	30-Jun-18	30-Jun-17
	FY20	FY19	FY18	FY17
	Audited	Audited	Audited	Audited
A. PERFORMANCE				
1. ROE	2.63%	-35.15%	-15.85%	48.37%
a Net Profit Margin	9.5%	-182.1%	-154.1%	275.5%
b Asset Turnover	11.0%	10.9%	8.1%	11.1%
c Financial Leverage	2.53	1.77	127.4%	1.58
2. ROA	0.9%	-18.5%	-15.4%	25.6%
3. Cost-to-Fee Income	204.8%	-90.1%	-148.5%	30.3%
4. Cost-to-Total Operating Income	67.2%	-908.2%	306.2%	23.3%
5. Taxes / Pre-Tax Profit	3.3%	-7.4%	-29.0%	7.5%
6. Net Non-Earning Assets / Assets net of Non-Interest Liabilities	49.4%	37.6%	60.0%	56.7%
B. FINANCIAL EXPOSURE				
1. Short Term Proprietary Listed Securities / Equity	46.1%	47.8%	18.5%	30.0%
2. Total Investments / Equity	55.1%	54.0%	36.9%	45.8%
3. Fixed Income / Total Capital	0.0%	0.0%	0.0%	0.0%
4. NCB / Equity	49.7%	62.3%	53.6%	34.0%
C. LIQUIDITY				
1. Trade Related Assets / Trade Related Liabilities	0.18	0.50	0.91	0.37
2. Liquid Assets/ Short Term Borrowings + Creditors	0.83	1.47	1.30	0.64
3. Liquid Assets / Total Assets	0.47	0.58	0.27	0.22
4. Liquid Assets / Trade Related Liabilities	1.43	4.56	1.41	1.39
5. Liquid Assets / (Short term Borrowings + Advances from Customers + Accounts Payable)	0.83	1.47	1.30	0.64
D. CAPITAL ADEQUACY				
1. Equity / Total Assets	39.5%	56.4%	78.5%	63.3%
2. Total Debt / Equity	63.5%	47.9%	2.0%	29.5%
E. GROWTH				
1. Total Assets	35.8%	15.0%	-32.6%	49.3%
2. Investments	34.8%	75.1%	-37.4%	36.7%
3. Equity	-16.0%	-17.3%	-16.4%	67.8%
4. Brokerage Revenue	136.6%	23.0%	-39.4%	42.2%
5. Investment Yield	12.2%	-24.6%	-10.1%	70.4%

Broker Management Rating

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

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

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) 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.

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.

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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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- (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)
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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.
- (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)

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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)
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- (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)

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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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