



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
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 (“IISL” or “The Company”) mainly provides the services of equity brokerage wherein the Company has competitive institutional clientele. The Broker Management Rating is reflective of the 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 rating remained restrictive on the back of 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 provides prudent services to its clients in the form of complaint management, access to technical and fundamental reports and a dynamic reporting mechanism. The Company has lean organizational structure with most of the heads reporting directly to CEO. Seasoned top management, sound risk management and compliance procedures provide support to the rating. The Company has adequate capitalization levels with the net capital balance of ~PKR 131mln at end Jun-20. The Company earned brokerage revenue of ~PKR 65mln during FY20 (FY19: PKR 49mln), consequently the losses turned into a profit of PKR 0.5mln in FY20 (FY19: PKR -103mln) The Company has a low leveraged structure supported by sponsor’s loan which is well covered by liquid assets.

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 Broker Management Rating(Jul-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504



Ownership

Ownership Structure The Ismail Iqbal Securities (Pvt.) Limited ("IISL" 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 In the wake of COVID-19 and 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 IISL is likely to increase amidst increased traded volumes of bourse.

Business Acumen IISL'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 IISL.

Governance

Board Structure IISL'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 IISL has established an audit committee at the board level. Audit Committee is responsible for overseeing IISL'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

Management Team Mr. Ahfaz Mustafa is the CEO of IISL 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.

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

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

Complaint Management IISL 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 IISL 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 IISL has a well-defined disaster recovery and business continuity plan.

Risk Management Framework IISL has established adequate risk management framework and has implemented proper policies of KYC and client due diligence(CDD). IISL 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 market (KSE-100 index) has delivered a robust 38% return during FY21. After a staggering 74% rise from its March-2020 bottom the current market levels are still attractive for investors with medium to long term investment horizon given cheap valuations as captured in the P/E multiples of 6.5x; improved economic outlook; promising corporate prospects; and supportive monetary conditions. From the valuation standpoint, the market is trading at an attractive forward Price-to-Earnings (P/E) multiple of 6.5x, versus 10-year average of 8.4x. The Earnings Yield of 15.4% offered by the market also looks appealing compared with the 10-year PIB Yield of 10% (see Chart-3). The stock market also offers a healthy dividend yield of 5.3%. Looking ahead, the market is well poised to deliver strong returns in the medium to long-term driven by attractive market fundamentals; improving economic indicators; easier financial conditions; and robust corporate profitability.

Business Profile Main activities of IISL 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 IISL'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). The Company has posted ~PKR 31mln in terms of un-realized gain on short term investments. IISL's profit during FY20, elevated to ~PKR 0.5mln 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, IISL 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, IISL had short term investment portfolio of ~PKR 146mln (FY19: ~PKR 118mln), which comprised quoted securities. Proprietary listed securities as compared to Company's equity comprised ~52% in FY20 (FY19: ~43%). 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 of IISL arises from T+2 settlement framework. At the end-Jun'20, the liquid assets were 0.62x of the total asset book (FY19: 0.51x). IISL has increased the approved bank lines by PKR 2mln to ~PKR 925mln, (FY19: 925mln). Liquid assets in relation to total liabilities stood at 1.03x (FY19: 1.14x), which are sufficient to cover the current liabilities of IISL.

Financial Risk At end-FY20 the Net Capital Balance (NCB) witnessed YoY decline and currently stood at ~PKR 131mln (FY19: ~PKR 143mln). The equity at end-Jun'20 stood at PKR ~278mln (SPLY: PKR 277mln). 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 (Pvt.) Limited
Private Limited

PKR mln

Jun-20	Jun-19	Jun-18
12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-
2 Investments	153	135	138
3 Other Earning Assets	-	-	-
4 Non-Earning Assets	564	387	347
5 Non-Performing Finances-net	-	-	-
Total Assets	717	522	485
6 Funding	430	235	97
7 Other Liabilities (Non-Interest Bearing)	9	10	7
Total Liabilities	440	245	104
Equity	278	277	381

B INCOME STATEMENT

1 Fee Based Income	65	49	49
2 Operating Expenses	(76)	(73)	(72)
3 Non Fee Based Income	40	(57)	(16)
Total Operating Income/(Loss)	29	(81)	(40)
4 Financial Charges	(27)	(15)	(9)
Pre-Tax Profit	2	(96)	(49)
5 Taxes	(2)	(7)	(17)
Profit After Tax	0	(103)	(66)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)

Return on Equity (ROE)

92.8%	-18.9%	-23.4%
0.3%	5.9%	-11.5%

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)

38.7%	53.1%	78.5%
-215.8%	600.4%	818.4%

3 Liquidity

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

Liquid Assets / Trade Related Liabilities

62.0%	51.2%	42.5%
167.6%	293.7%	226.4%

4 Credit & Market Risk

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

Equity Instruments / Investments

9.6%	15.2%	87.1%
95.4%	87.3%	89.9%

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 surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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- 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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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)
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- (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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