



The Pakistan Credit Rating Agency Limited

## Rating Report

### IGI Finex Securities Limited | BFR

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#### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
26-Aug-2022	BFR 2+	Stable	Maintain	-
27-Aug-2021	BFR 2+	Stable	Initial	-

### Rating Rationale

Factor	Comment
<b>Ownership</b>	IGI is a wholly owned subsidiary of IGI Holdings Ltd. IGI's competitive edge lies in its distinct corporate culture and client centric approach.
<b>Governance</b>	IGI has four directors on board including CEO and Chairman. All the directors possess manifold experience in relevant fields.
<b>Management and Client Services</b>	IGI's team comprised of experienced and well trained staff supported by qualified research team with wide coverage of economy and all major sectors as well as state-of-the-art web and mobile trading.
<b>Internal Controls and Regulatory Compliance</b>	IGI has formulated employee confidentiality agreement, insider trading guidelines, conflict of interest policy along with KYC and CDD policies.
<b>Business Sustainability</b>	The topline of IGI lacks diversification in revenue stream and concentrated to the equity brokerage income. The Company is not running any proprietary book hence less exposed to market risk.
<b>Financial Sustainability</b>	Leverage free capital structure and sizable liquid assets against trade related liabilities provide further support to rating.

### Key Rating Drivers

The Broker Fiduciary Rating of IGI Finex Securities Limited ("IGI" or "The Company") reflects IGI's association with a well-established group and dominant player in the industrial and services arena. The assigned rating is complemented by IGI's adequate market share, well-built governance structure, satisfactory financial strength, and dynamic team of experienced and competent individuals. Appointment of 'A' category external auditors, the establishment of two board-level committees, and outsourced internal audit function augur well for insightful monitoring. IGI serves clients all across the spectrum comprising local and foreign institutions, corporate, high net worth, and retail investors from its offices in six different cities. The Net Capital Balance of IGI clocked in at ~PKR 112mln with an equity base of ~PKR 328mln at end-Jun'22. The income from equity brokerage stood at ~PKR 67mln for 1HCY22, depicting a decline of ~62% due to an industry-wide downward trend in volumetric activity. Despite of huge decline in commission income, the Company managed to remain in profit. The profit after tax came in at ~PKR 5mln for 1HCY22. The ratings are dependent on the management's ability to maintain and enhance its market share to improve its competitive position in the brokerage industry.

#### Disclosure

<b>Name of Rated Entity</b>	IGI Finex Securities Limited   BFR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Fiduciary Rating (BFR)
<b>Applicable Criteria</b>	Methodology   Broker Fiduciary Rating(Jan-22)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-22)
<b>Rating Analysts</b>	Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504

## Profile

**Background:** Established in 1994, IGI Finex Securities Limited (“IGI” or the “Company”) is a prestigious name in Pakistan’s financial services industry for over 28 years. The Company is a TREC holder of Pakistan Stock Exchange (PSX) and corporate member of Pakistan Mercantile Exchange (PMEX).

**Operations:** With its head office based in Karachi, main activities of the Company include equity, commodities, forex and money market brokerage along with corporate finance and financial advisory business. The Company operates with six branches across the country.

## Ownership

**Ownership Structure:** The Company is a wholly owned subsidiary of IGI Holding Limited Company. Major ownership of IGI Holdings (~72%) vests with Packages Group.

**Stability:** IGI Holdings, the parent company, is engaged in Insurance, Brokerage, Packages, Power and Real Estate. Being a pure holding company, total investment portfolio constitutes 98% of the Company’s total assets.

**Business Acumen:** IGI Holdings and Packages Group is ranked amongst the leading industrial groups of the country with diversified interests in paper and paperboard, packaging, financial institutions, food, personal care and real estate sectors. Strong affiliation and technical track record with international JVs have added to the success of companies within the Group.

**Financial Strength:** The collective asset base IGI holdings and Packages Group stood at ~PKR 147bln with an equity base of ~PKR 66bln in 1QCY22.

## Governance

**Board Structure:** The Company has four directors on board including CEO and chairman. All the directors possess manifold experience in relevant fields. Formerly, IGI had five directors on the board out of which one of the directors has passed away and one has resigned for personal reasons. The Company has recently hired a non-executive director on the Board.

**Members’ Profile:** Syed Abdul Wahab Mehdi is the Chairman of IGI Securities Limited. He completed his Bachelor of Arts (B.A.) from the University of Massachusetts, USA. Previously, he has also worked at Bayer Pakistan (Pvt) Limited, Aventis CropScience Pakistan, AgrEvo Pakistan, Hoechst Pakistan Ltd. and Roussel Uclaf Pakistan Environmental Health (Pvt.) Limited.

**Board Effectiveness:** In line with best corporate governance practices, the Company has formulated three board committees, i) Audit committee, ii) HR & remuneration committee and iii) IT Steering committee. The audit and HR & remuneration committees are chaired by the chairman of the board while the IT Steering committee is being chaired by CEO, Mr. Syed Raza Hussain Rizvi.

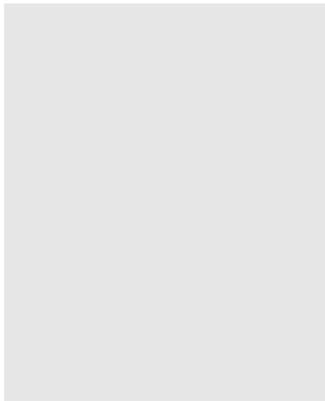
**Transparency:** IGI has outsourced the internal audit function to EY Fort Rhodes Chartered Accountants and has appointed A.F. Ferguson & Co. Chartered Accountants as the external auditor.

## Management and Client Services

**Organizational Structure:** IGI has a multi-tier organizational structure, consisting of the following departments, i) Finance, ii) Internal audit, iii) Risk Management & Compliance, iv) IT, v) Equity operations, vi) Research, vii) Institutional sales, viii) Online trading, ix) Commodity trading and, x) Human resources. All of the departmental heads report directly to the CEO.

**Management Team:** The CEO, Mr. Syed Raza Hussain Rizvi brings across over nineteen years of diversified experience in the fields of Management, Corporate Strategy, Business Development, Mergers & Acquisitions, Capital Markets, Financial / Treasury Management, Corporate Governance and Implementation of Best Practices.

**Client Servicing:** The Company has provided a facility of digital account opening forms through its website. Similarly, various channels, including a mobile app and online trading platforms are available to customers to execute and monitor their transactions. The Company has a strong client reporting mechanism with account statements and market



reports communicated to the clients on regular basis. A fully functioning research department is also in place to cater to the needs of institutional and corporate investors.

**Complaint Management:** The Compliance Officer is responsible for handling and rectification of complaints and for maintaining the records. The prime task of the department is to submit a quarterly report (as per Securities broker regulation 2016) to SECP regarding the number of complaints received, resolved, and unresolved with the reasons thereof for pending complaints beyond three months.

**Extent of Automation / Integration:** The Company's trading and database platforms are fully integrated between the back and front offices. The system has the ability to generate real-time MIS reports to facilitate timely decision-making by management.

**Continuity of Operations:** The Company has a detailed disaster recovery plan to ensure the business continuity at the time of disaster. Backup frequency is formulated according to the type of backup required (full, partial, incremental, differential, and real-time).

## Internal Controls and Regulatory Compliance

**Risk Management Framework:** A well-formulated risk management policy is implemented throughout the Company. The Company has a designated Risk Manager who reports directly to the CEO. The board of directors also provides their input for developing and monitoring the risk management policies of IGI Securities. Management has established a code of conduct and trading hall SOPs, to identify and monitor potential risks at the operational level.

**Regulatory Compliance:** Risk Management & Compliance Department ensures that all the regulatory requirements are met on a timely basis.

## Business Sustainability

**Operating Environment:** The equity brokerage business is directly correlated to the trading activity at the Stock Exchange. After a few years of lackluster trading activity, volumes at PSX rebounded in FY21 showing a significant growth YoY mainly due to an uptick in economic activity. However, due to the prevailing political uncertainty, the volumes once again declined in the latter half of CY21 and 1HCY22. The recent corporate result announcements strengthen the view that going forward, volumetric activity may rebound.

**Performance:** The Company's operating revenue is primarily concentrated in equity brokerage; however, total revenues are supplemented by profits on savings accounts and exposure margins. During CY21, the equity brokerage revenue increased by ~53% to ~PKR 282mln (CY20 ~PKR 184mln), while the Company earned ~PKR 67mln during 1HCY22 (SPLY: 178mln). The decline in revenue directly correlates with the dip in market volumes. The Company has reported a net profit of ~PKR 69mln in CY21 as compared to a profit of ~PKR 36mln in CY20, while the profit after tax stood at ~PKR 5.5mln during the 1HCY22 (SPLY: ~PKR 60mln).

**Strategy:** The Company has a long-term strategy to promote retail investment by easing access to investment products and stock market trading with the help of digital initiatives.

## Financial Sustainability

**Credit Risk:** For the assessment of the client's credit worthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. At end-Jun'22, trade debts stood at ~PKR 34mln (CY21: ~PKR 67mln).

**Market Risk:** The Company is not running a proprietary book, hence not exposed to market risk. The only investments in books of accounts are long-term investments in PSX shares, amounting to ~PKR 16mln at end-Jun'22.

**Liquidity Risk:** The Company's current assets stood at ~PKR 760mln at end-Jun'22 (CY21: ~PKR 1,183mln). Furthermore, current liabilities were ~PKR 537mln end-Jun'22 (CY21: ~PKR 967mln).

**Capitalization:** At end-Jun'22, the Net Capital Balance (NCB) of the Company stood at ~PKR 112mln. The Company has an equity base of ~PKR 328mln at end-Jun'22 (Dec'21: ~PKR 328mln).

PKR mln

IGI Finex Securities Limited	Jun-22	Dec-21	Dec-20	Dec-19
	6M	12M	12M	12M

### A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	16	22	24	20
3 Other Earning Assets	176	260	292	167
4 Non-Earning Assets	696	1,035	838	670
5 Non-Performing Finances-net	-	-	-	-
<b>Total Assets</b>	<b>888</b>	<b>1,317</b>	<b>1,154</b>	<b>856</b>
6 Funding	2	3	1	1
7 Other Liabilities (Non-Interest Bearing)	555	986	838	579
<b>Total Liabilities</b>	<b>557</b>	<b>989</b>	<b>838</b>	<b>580</b>
<b>Equity</b>	<b>328</b>	<b>328</b>	<b>316</b>	<b>277</b>

### B INCOME STATEMENT

1 Fee Based Income	69	292	190	99
2 Operating Expenses	(88)	(224)	(174)	(122)
3 Non Fee Based Income	27	34	36	33
<b>Total Operating Income/(Loss)</b>	<b>8</b>	<b>102</b>	<b>53</b>	<b>10</b>
4 Financial Charges	(1)	(1)	(1)	(1)
<b>Pre-Tax Profit</b>	<b>8</b>	<b>101</b>	<b>52</b>	<b>10</b>
5 Taxes	(2)	(32)	(16)	4
<b>Profit After Tax</b>	<b>5</b>	<b>69</b>	<b>36</b>	<b>13</b>

### C RATIO ANALYSIS

#### 1 Business Sustainability

Pre Tax Margin	11.2%	34.7%	27.4%	9.6%
EBITDA/ Revenue	16.3%	37.3%	31.1%	17.4%
Profit / (Loss) Before Interest & Taxes / Total Assets	0.9%	7.8%	4.6%	1.2%

#### 2 Financial Sustainability

Total Investments / Equity	5.0%	6.7%	7.5%	7.2%
NCB / Equity	34.3%	34.5%	30.8%	15.0%
LCB/ Total Equity	49.2%	46.5%	26.6%	21.1%
(Cash & Cash Equivalents + Government Securities) / Total Assets	81.1%	86.7%	83.6%	77.1%
Total Debt / Equity	0.7%	0.8%	0.2%	0.3%

### Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management and client services and sustainability of operations

Scale	Definition
<b>BFR 1</b>	<b>Very Strong.</b> Very Strong quality of management, client services and very high likelihood of sustaining operations.
<b>BFR 2++</b> <b>BFR 2+</b> <b>BFR 2</b>	<b>Strong.</b> Strong quality of management, client services and high likelihood of sustaining operations.
<b>BFR 3++</b> <b>BFR 3+</b> <b>BFR 3</b>	<b>Good.</b> Good quality of management, client services and above average likelihood of sustaining operations.
<b>BFR 4++</b> <b>BFR 4+</b> <b>BFR 4</b> <b>BFR 5</b>	<b>Adequate.</b> Adequate quality of management, client services and average likelihood of sustaining operations.
	<b>Weak.</b> Weak quality of management, client services and weak likelihood of sustaining operations.

<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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- (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 | Clause 11-(A)(p).
- (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)
- (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)

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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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