



The Pakistan Credit Rating Agency Limited

Rating Report

IGI Securities Limited | BFR

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Rating History				
Dissemination Date	Rating	Outlook	Action	Rating Watch
27-Aug-2021	BFR 2+	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	IGI is a wholly owned subsidiary of IGI Holdings Ltd. IGI's competitive edge lies in its distinct corporate culture and client centric approach.
Governance	IGI has five directors on board including CEO and Chairman. All the directors are executive except the Chairman and possess manifold experience in relevant fields.
Management and Client Services	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.
Internal Controls and Regulatory Compliance	IGI has formulated employee confidentiality agreement, insider trading guidelines, conflict of interest policy along with KYC and CDD policies.
Business Sustainability	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.
Financial Sustainability	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 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 and satisfactory operating profitability and dynamic team of experienced and competent individuals. Appointment of 'A' category external auditors, establishment of two board level committees and outsourced internal audit function augurs 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 98mln with an equity base of ~PKR 316mln as at end-CY20. While the equity brokerage income clocked in at ~PKR 187mln at end-CY20 (CY19: ~PKR 97mln). The Company earned profit amounting to ~PKR 36mln during CY20 (CY19: ~PKR 13mln). Sustainability of market share, retention of key personnel, adherence towards regulatory requirements and sustainability of profitability will remain imperative from ratings perspective.

Disclosure	
Name of Rated Entity	IGI Securities Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology Broker Fiduciary Rating(Jan-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
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Profile

Background: Established in 1994, IGI Securities Limited (“IGI” or the “Company”) is a prestigious name in Pakistan’s financial services industry for over 25 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 Holdings Limited. Major ownership of IGI Holdings (~72%) vests with Packages Group through sponsors (~32%) and associated entities (~40%)

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 184bln, debt exposure of ~PKR 36bln, with and equity base of ~PKR 102bln.

Governance

Board Structure: The Company has five directors on board including CEO and chairman. All the directors are executive except the Chairman and possess manifold experience in relevant fields.

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 chairman of board while 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. The auditor issued an unqualified opinion on the Company’s financial statements for CY20.

Management and Client Services

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

Management Team: The CEO, Mr. Syed Raza Hussain Rizvi brings across over eighteen 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 complete integration with PSX’s digital account opening forms. Similarly, various channels, including a mobile app, are available to customers to execute and monitor their transactions. The Company has strong client

Internal Controls and Regulatory Compliance

reporting mechanism with account statements and market reports communicated to the clients on regular basis.

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

Extent of Automation / Integration: Two database platforms are installed with full integration between back and front office. The system has the ability to generate timely reports.

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).

Risk Management Framework: A well formulated risk management policy is implemented throughout the Company, to provide trading services. The Company has a separate risk management department with a designated Risk Manager who reports directly to the CEO. The board is responsible for developing and monitoring the risk management policies of IGI Securities. Management has established code of conduct and trading hall SOPs, to identify and monitor potential risks at operational level.

Regulatory Compliance: Risk Management & Compliance Department ensures that all the regulatory requirements have been fulfilled. No observations were reported by the regulators during CY20.

Business Sustainability

Operating Environment: Unprecedented monetary and fiscal policy response, gradual lifting of the lockdown, and earlier than expected arrival of effective vaccines caused one of the largest reversals in the history of the market, surging by 61% from its lowest level on Mar 25th till Dec 31st. The stock market managed to finish CY20 with a gain of 7.4%. While volumes rebounded from the lows of CY19 where average daily turnover clocked in at 423mln shares compared to 233mln the previous year. Going forward, volumes are expected to remain strong backed by strong appetite of retail investors given the country's economic rebound and the global Covid-19 vaccine roll out.

Performance: The Company's total revenues are supplemented by profits on savings accounts and exposure deposit but operating revenue mainly concentrated to equity brokerage. During CY20 the equity brokerage revenue increased by 92% to PKR 187mln (CY19 ~PKR 97mln). The Company reported net profit of PKR ~38mln in CY20 compared to a profit of ~PKR 13mln in CY19. Operating expenses also followed the upsurge and increased by 40% to ~PKR 171mln (SPLY: ~PKR 122mln).

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.

Credit Risk: For the assessment of client's credit worthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. At end-CY20, trade debts have depicted a declining trend and stood at ~PKR 32mln (CY19 ~PKR 123mln). The Company has registered a provision against doubtful debts amounting to ~PKR 580mln.

Market Risk: The Company is not running proprietary book, hence not exposed to market risk. The only investments in books of accounts are long term investments in PSX shares.

Liquidity Risk: The Company's liquid assets were ~0.9x of the total asset as CY20 (CY19: ~0.8x). Furthermore, liquid assets were ~1.4x that of the trade-related liabilities (CY19: ~1.5x).

Capitalization: As at CY20, the Net Capital Balance (NCB) of the Company stood at ~PKR 98mln, which allows the Company to take exposure up to 25x of its NCB. The Company has an equity base of ~PKR 316mln.

Financial Sustainability



IGI Securities Limited

Dec-20	Dec-19	Dec-18
12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-
2 Investments	24	20	22
3 Other Earning Assets	24	46	27
4 Non-Earning Assets	1,107	790	587
5 Non-Performing Finances-net	-	-	-
Total Assets	1,155	856	635
6 Funding	756	469	291
7 Other Liabilities (Non-Interest Bearing)	82	110	79
Total Liabilities	838	580	370
Equity	316	277	265

B INCOME STATEMENT

1 Fee Based Income	190	99	91
2 Operating Expenses	(174)	(122)	(133)
3 Non Fee Based Income	36	33	20
Total Operating Income/(Loss)	53	10	(23)
4 Financial Charges	(1)	(1)	(1)
Pre-Tax Profit	52	10	(24)
5 Taxes	(16)	4	(6)
Profit After Tax	36	13	(29)

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	27.4%	9.6%	-26.1%
EBITDA/ Revenue	27.7%	10.2%	-25.5%
Profit / (Loss) Before Interest & Taxes / Total Assets	4.4%	1.1%	-3.4%

2 Financial Sustainability

Total Investments / Equity	7.5%	7.2%	8.2%
NCB / Equity	31.6%	16.6%	13.4%
LCB/ Total Equity	29.6%	21.1%	0.0%
(Cash & Cash Equivalents + Government Securities) / Total Assets	83.9%	75.1%	71.2%
Total Debt / Equity	0.0%	0.0%	0.0%

Broker Fiduciary Rating Scale & Definitions

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

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

<p>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’.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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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- (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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- (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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- (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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