



The Pakistan Credit Rating Agency Limited

Rating Report

KTRADE Securities Limited | BFR

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
12-May-2023	BFR 2	Stable	Upgrade	-
12-May-2022	BFR 3++	Stable	Upgrade	-
26-May-2021	BFR 3+	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	Major stakes are owned by Oxford Frontier Capital, a UK based Fintech focused VC/PE firm which provides KTrade access to capital, expertise and global networking.
Governance	The rating upgrade factors in the strengthening of governance structure and transparency with the diverse board and presence of independent directors.
Management and Client Services	The rating takes comfort from a well-defined organizational structure and experienced management team. The integration of a customized CRM module has led to efficient reporting and increased customer satisfaction with enhanced focus on online presence.
Internal Controls and Regulatory Compliance	KTrade has further strengthened the control framework with the recent appointment of a separate head of risk management.
Business Sustainability	KTrade's primary revenue stream is derived from equity brokerage, although diversification is present through its offerings in corporate finance while KTrade has also established a money market desk to absorb market volatility shocks.
Financial Sustainability	KTrade mitigates market risk by refraining from engaging in proprietary book investments. KTrade has managed to retain its market share despite of declining market volumes and economic uncertainty.

Key Rating Drivers

The rating upgrade incorporates the strengthening of the internal control framework with the appointment of a separate head of risk management in addition to an outsourced internal audit and dedicated compliance function. The assigned rating takes comfort from a management team consisting of seasoned professionals providing the clients with access to a state-of-the-art mobile app and services such as web-based trading and up-to-date research reports. The rating accounts for the strong sponsors' profile and a sound governance structure which has strengthened further with the addition of two independent directors. Financially, KTrade has performed in line with the market and has successfully managed to sustain its market share. To further enhance the financial viability, KTrade is making efforts to increase inflow from corporate finance, commodity trading, and money market desk. Going forward, the sustainability of the topline with a focus on cost control and upholding a strong control framework will remain critical for the assigned rating.

Disclosure

Name of Rated Entity	KTRADE Securities Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology Broker Fiduciary Rating(Jan-23)
Related Research	Sector Study Brokerage & Securities(Jan-23)
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Profile

Background KTrade Securities Limited (“KTrade” or “The Company”) is a TREC Holder of the Pakistan Stock Exchange. It is regulated and authorized by the Securities and Exchange Commission of Pakistan (SECP) and the Pakistan Stock Exchange (PSX).

Operations The Company is primarily engaged in the provision of equity brokerage services with an aim to target the retail clientele by utilizing financial technology. The Company also provides the services of corporate finance and research while it has also established a money market desk and commodity trading recently.

Ownership

Ownership Structure The majority shares of KTrade are owned by M/s Oxford Frontier Capital Limited at ~60% while Oxford Frontier Capital is primarily owned by the Chairman of KTrade - Mr. Ali Farid Khawaja. The remaining stakes of KTrade are owned by Ms. Mubashira Bukhari Khwaja ~20% and Mr. Mahmood Ali Shah Bukhari (the CEO) ~15%. The ownership of Oxford Frontier Capital can provide a company with access to capital, expertise, and connections that can help it grow and succeed.

Stability Oxford Frontier Capital is the major shareholder of the Company whose majority shareholding lies with Mr. Ali Farid Khawaja. Oxford Frontier Capital Limited is providing equity support to KTrade to boost its growth.

Business Acumen Mr. Mahmood Ali Shah is a seasoned professional with years of experience in equity research and investments. Mr. Mahmood is a well-experienced businessman and has a BSc in Liberal Studies from the University of Waterloo- Canada. Ms. Mubashira is CFA Charterholder with MSc in Wealth Management from Singapore Management University and MSc in Economics from LUMS.

Financial Strength The sponsors have sizeable net worth and are injecting capital into the Company with an increasing quantum of operations. This also shows the sponsors' commitment in case a financial need arises.

Governance

Board Structure The board of directors is comprised of five members out of which three are independent. KTrade has recently improved its governance and transparency with the addition of Mr. Faisal Aftab and Ms. Sadaf Rehman as independent directors. The Board is chaired by Mr. Muhammad Ali Farid Khwaja.

Members' Profile All the directors are seasoned professionals and possess manifold experiences in the relevant fields. The board members are skilled and experienced to manage the business operations efficiently. The chairman of the board, Mr. Ali Farid Khawaja has more than 15 years' experience in equity research and investments. He has been a top-ranked Technology Analyst in Europe at Berenberg and UBS. Ali is an alumnus of the Georgetown Leadership Seminar and the University of Oxford.

Board Effectiveness To ensure an effective control environment and compliance with reporting standards, the Company has constituted three board committees: i) Audit Committee, ii) Risk Management Committee, and iii) Human Resource and Remuneration Committee.

Financial KTrade has appointed BDO Ebrahim Consulting and Co. Chartered Accountants as the external auditors which fall in the A category of the SBP's panel of auditors.

Management And Client Services

Organizational Structure The Company has a lean organizational structure where all Heads of the departments are directly reportable to the CEO. KTrade currently operates through 6 branches, with 4 in Karachi, 1 in Multan, and 1 in Lahore along with a facilitation center in Islamabad. The main departments of the Company include (i) Research, (ii) Sales, (iii) Customer Support, (iv) Compliance, (v) Risk Management, (vi) HR, (vii) Finance, (viii) Corporate Finance, (ix) Product Development, and (x) Marketing.

Management Team The Company has a team of seasoned professionals. Mr. Saad Bin Ahmed, the MD-Sales is from a CA background with years of relevant experience. Mr. Muzaffar Iqbal has over 10 years of relevant experience and is the current CFO of the Company. He is also a CA finalist and has CICA and CFRA certifications as well. Miss Nadia Ishtaq is a CFA and is currently the VP of Corporate Finance at KTrade.

Client Servicing The Company offers multiple account opening mediums including an online trading terminal, mobile app, and physical presence. The customized user-friendly mobile app is considered a benchmark in the financial industry. A dedicated customer support department is available as well, while a real-time reporting mechanism and a research department enhance the overall client service.

Complaint Management An adequate complaint management system is in place. Complaints can be made via e-mail, SMS, calls, and website.

Extent Of Automation / Integration The front-end and back-end software are installed with full integration and procured from SECP's approved vendors. The system has the ability to generate timely reports and incorporates primary and secondary-level protection.

Continuity Of Operations KTrade has a detailed disaster recovery plan to ensure business continuity at the time of disaster. Moreover, backups are maintained on a daily basis.

Internal Controls And Regulatory Compliance

Risk Management Framework KTrade has established Risk Management Committee at the board level for reviewing risk appetite, policies, and controls put in place. The internal audit function which is instrumental in mitigating risk arising from operational failures is outsourced to Afras & Co.

Regulatory Compliance The Risk Management & Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in line with the applicable policies and procedures.

Business Sustainability

Operating Environment The economy of Pakistan has remained generally unstable during 1HFY23. Investors have lost faith in the market due to a variety of factors, including internal political unrest and flash floods that devastated a sizable portion of the nation as well as global issues like the global recession and the Russia-Ukraine war. The top line of the brokerage business as a whole has been impacted by the continued low traded volumes. Going forward, political stability following elections may significantly contribute to the potential of market stabilization; but, the recent increase in policy interest rates may continue to discourage investors from choosing the riskier equities market in favor of safer fixed-income returns.

Performance The Company's operating revenue declined by ~42% to stand at ~PKR 42mln during 1HFY23 (1HFY22: ~PKR 72mln) whereas the market volumes declined by ~43% during 1HFY23 when compared with 1HFY22, which shows that the Company performed in line with the market conditions. The Company reported a net loss of ~PKR 49mln in 1HFY23 compared to a net loss of ~PKR 47mln in SPLY. The loss is mainly attributable to expansion in human capital and marketing amidst an increasing quantum of operations.

Strategy Going forward, KTrade plans to enhance its footprint in the retail universe. KTrade is aggressively expanding its branch network for this purpose while they are also in the process of improving upon its client servicing through a business partnership with a micro-finance bank which will allow them to incorporate Mobile wallets and Mobile Payments into its application.

Financial Sustainability

Credit Risk The Company has developed risk management policies and guidelines whereby clients are provided trading limits according to their worth and proper margins are collected and maintained from the clients. The management continuously monitors the credit exposure of the clients.

Market Risk The Company does not maintain any proprietary portfolio; however, at end-Dec'22 short-term investments of ~PKR 47mln were made in listed equity securities. The Company has formalized an investment policy statement whereby limits have been defined to mitigate the risks, the compliance department monitors the limits consistently

Liquidity Risk The liquidity profile of the Company is adequate. At the end-Dec'22, the current assets stood at ~PKR 687mln as compared to current liabilities of ~PKR 303mln. The Company also has short-term investments of ~PKR 74mln in T-Bills

Capitalization The Company has a low-leveraged capital structure. At end-Dec'22, KTrade's equity stood at a reasonable ~PKR 484mln at end-Dec'22 reflecting the capacity to absorb losses.

Ktrade Securities Limited	Dec-22	Jun-22	Jun-21	Jun-20
	6M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	166	216	123	145
3 Other Earning Assets	60	103	224	79
4 Non-Earning Assets	563	482	516	355
5 Non-Performing Finances-net	-	-	-	-
Total Assets	789	801	863	579
6 Funding	-	44	-	48
7 Other Liabilities (Non-Interest Bearing)	305	224	357	268
Total Liabilities	305	269	357	316
Equity	483	533	506	263

B INCOME STATEMENT

1 Fee Based Income	42	131	159	45
2 Operating Expenses	(115)	(272)	(165)	(64)
3 Non Fee Based Income	25	24	16	28
Total Operating Income/(Loss)	(49)	(117)	10	9
4 Financial Charges	(1)	(0)	(0)	(0)
Pre-Tax Profit	(49)	(117)	9	9
5 Taxes	-	0	(4)	(3)
Profit After Tax	(49)	(116)	5	6

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	-119.0%	-89.0%	5.9%	20.1%
EBITDA/ Revenue	-117.2%	-83.4%	7.7%	24.8%
Profit / (Loss) Before Interest & Taxes / Total Assets	-6.2%	-14.6%	1.1%	1.6%

2 Financial Sustainability

Total Investments / Equity	34.3%	40.5%	24.3%	55.1%
NCB / Equity	51.6%	69.1%	77.6%	75.3%
LCB/ Total Equity	19.8%	66.1%	80.0%	68.3%
(Cash & Cash Equivalents + Government Securities) / Total Assets	81.1%	84.3%	89.0%	80.1%
Total Debt / Equity	0.0%	8.3%	0.0%	0.0%

Broker Fiduciary Rating Scale & Definitions

An independent opinion on a broker's quality of management and client services, and sustainability of operations

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

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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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- (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)

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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