



The Pakistan Credit Rating Agency Limited

## Rating Report

### KTRADE Securities Limited | BFR

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#### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
10-May-2024	BFR 2	Stable	Maintain	-
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
<b>Ownership</b>	Oxford Frontier Capital, a UK-based Fintech-focused VC/PE firm, holds a significant 60% ownership stake, providing KTrade with access to capital, expertise, and a global network.
<b>Governance</b>	The Company boasts a good governance structure with five members, including three independent directors and two executive directors.
<b>Management and Client Services</b>	KTrade has a lean organizational structure with an experienced and qualified management team to manage operations. Client services are considered adequate with online trading and research reports present.
<b>Internal Controls and Regulatory Compliance</b>	KTrade has a strong internal control environment, backed by outsourced internal audit services, and the active involvement of audit and risk management committees. A dedicated compliance head ensures effective compliance reporting.
<b>Business Sustainability</b>	KTrade's topline is concentrated to equity brokerage; however, there is diversity present in the form of advisory, MFS & MTS. During 1HFY24, the company earned ~PKR 92mln ( SPLY: ~PKR 42mln) as operating revenue, with a profit/(Loss) after tax of ~PKR 58mln (SPLY: ~PKR (49)mln).
<b>Financial Sustainability</b>	KTrade mitigates market risk by refraining from engaging in proprietary book investments. KTrade has managed to retain its market share despite declining market volumes and economic uncertainty. KTrade had an adequate equity base of ~PKR 449mln at end-Dec'23.

### Key Rating Drivers

The brokerage industry exhibited a notable performance since October 2023 based on improved macroeconomic indicators resulting in renewed investor interest, reaching historic high levels during April 2024. KTrade is planning to take advantage of the market upticks by further focusing on retail clientele and enhancing its market share. The management has also improved its technological structure for the swift onboarding of retail clientele. Moving forward, the materialization of planned revenue and geographical diversification is important for the rating. Maintenance and improvement of market share and growth in revenue and profitability remain vital. Meanwhile, it is imperative to uphold robust internal controls, retention of key management personnel and diligently monitor risks.

#### Disclosure

<b>Name of Rated Entity</b>	KTRADE Securities Limited   BFR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Fiduciary Rating (BFR)
<b>Applicable Criteria</b>	Assessment Framework   Broker Fiduciary Rating(Jan-24)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-24)
<b>Rating Analysts</b>	Hassaan Ahmad   Hassaan.Ahmad@pacra.com   +92-42-35869504

## 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 Securities Limited are owned by M/S Oxford Frontier Capital Limited at 60% while Oxford Frontier Capital is primarily owned by the Chairman of KTrade Securities Limited - Mr. Ali Farid Khawaja. The remaining stakes of KSL 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 Securities Limited 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 and two executive director. The Board is chaired by Mr. Muhammad Ali Farid Khawaja.

**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 Securities Limited 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. KSL 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. 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 CFR A certifications as well. Miss Nadia Ishtaq is a CFA and is currently the VP of Corporate Finance at KTrade Securities Limited. Additionally, the company has created a new position, appointing Mr. Naveed Wakeel as Chief Operating Officer (COO) and Head of Broking. Mr. Naveed, who previously worked at AKD, brings extensive market expertise to his new role and Mr. Zia ur Rehman as a Head of Sale.

**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 Securities Limited 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** The company 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 Brokerage industry faced extremely low years during FY22 and FY23, due to limited investor interest. High interest rates and crippling inflation resulted in investors opting for safer fixed income returns instead of the riskier equities market. The trend continued during 1QFY24; however, 2QFY24 experienced a surge in investor interest, pushing the KSE-100 index to historic highs. The 2HFY24 is expected to stabilize in terms of market volumes and the index trading between the 60k to 70k point range, with expectations of another surge as market P/E ratio is still low. On the other hand, political sentiments play a key role and the focus remains on the upcoming government to provide answers to economic stability. Moreover, continued support from the IMF remains critical.

**Performance** The Company's operating revenue declined by 32% to stand at PKR 87mln at end-Jun'23 (FY22: PKR 129m1n) and operating revenue increase by 122% to stand at PKR 92mln at the end of 6MFY24 (6MFY23: PKR 42mln) whereas the market volumes declined by -43% during FY23 when compared with the FY22, which shows that the Company was able to perform better than market conditions.

**Strategy** Going forward, KTrade Securities Limited plans to enhance its footprint in the retail universe. KTrade Securities Limited 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 it 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 decision of proprietary investments lies with the BoD. The usual practice of Trade is to invest excess funds in banks or fixed-income instruments rated 'A', T.bill, or Mutual funds

**Liquidity Risk** The liquidity profile of the Company is adequate. At the end-Dec-23, the current assets stood at PKR 1,026mln as compared to current liabilities of -PKR 641mln. The Company also has short-term investments of PKR 48mln in T-Bills.

**Capitalization** The Company has a low-leveraged capital structure. At end-Dec'23, KTrade Securities Limited equity stood at a reasonable -PKR 449mln reflecting the capacity to absorb losses.

THE PAKISTAN CREDIT RATING AGENCY

KTRADE Securities Limited  
PUBLIC UNLISTED LIMITED  
FINANCIAL SUMMARY

FS PRINT MODE DISABLED

Dec-23 FY24 6M Management	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited	Jun-21 FY21 12M Audited
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BALANCE SHEET

	Dec-23 FY24 6M Management	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited	Jun-21 FY21 12M Audited
1 FINANCES	-	-	-	-
2 INVESTMENTS	168.41	140.26	215.61	122.72
3 OTHER EARNING ASSETS	406.61	119.94	15.88	29.52
4 NON-EARNING ASSETS	515.44	439.60	569.98	710.57
5 NON-PERFORMING FINANCES-net	-	-	-	-
<b>TOTAL ASSETS</b>	<b>1,090.46</b>	<b>699.80</b>	<b>801.48</b>	<b>862.82</b>
6 FUNDING	-	-	44.35	-
7 OTHER LIABILITIES (NON-INTEREST BEARING)	641.87	309.14	224.28	356.80
<b>TOTAL LIABILITIES</b>	<b>641.87</b>	<b>309.14</b>	<b>268.64</b>	<b>356.80</b>
<b>TOTAL EQUITY</b>	<b>448.59</b>	<b>390.67</b>	<b>532.84</b>	<b>504.66</b>

INCOME STATEMENT  
INCOME

	Dec-23 FY24 6M Management	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited	Jun-21 FY21 12M Audited
1 FEE BASED INCOME	95.27	77.47	124.79	158.68
2 OPERATING EXPENSES	(153.64)	(226.05)	(272.31)	(165.10)
3 NON-FEE BASED INCOME	64.86	(38.41)	1.19	1.39
<b>TOTAL OPERATING INCOME (LOSS)</b>	<b>6.49</b>	<b>(186.99)</b>	<b>(146.33)</b>	<b>(5.04)</b>
4 FINANCIAL CHARGES	(0.21)	(0.92)	(0.18)	(0.17)
<b>PRE-TAX PROFIT</b>	<b>57.92</b>	<b>(133.70)</b>	<b>(116.94)</b>	<b>8.21</b>
5 TAXES	-	(1.45)	0.46	(4.01)
<b>PROFIT AFTER TAX</b>	<b>57.92</b>	<b>(135.14)</b>	<b>(116.48)</b>	<b>4.21</b>

RATIOS

BUSINESS SUSTAINABILITY

	Dec-23 FY24 6M Management	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited	Jun-21 FY21 12M Audited
1 PRE-TAX MARGIN	0.61	(1.73)	(0.94)	0.05
2 EBITDA MARGIN	0.61	(1.71)	(0.94)	0.05
3 EBIT RETURN ON ASSETS	0.12	(0.18)	(0.14)	0.01

FINANCIAL SUSTAINABILITY

	Dec-23 FY24 6M Management	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited	Jun-21 FY21 12M Audited
1 TOTAL INVESTMENTS / EQUITY	0.38	0.36	0.40	0.24
2 LIQUID CAPITAL BALANCE (LCB) / EQUITY	0.52	0.25	0.86	0.44
3 (CASH, CASH EQUIVALENTS & GOVERNMENT SECURITIES) / TOTAL ASSETS	0.58	0.37	0.41	0.13
4 TOTAL DEBT / TOTAL ASSETS	-	-	0.06	-

### Broker Fiduciary Rating Scale & Definitions

An independent opinion on a broker's 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 and 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 and 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 and client services, and above average likelihood of sustaining operations.
<b>BFR 4++</b> <b>BFR 4+</b> <b>BFR 4</b>	<b>Adequate.</b> Adequate quality of management and client services, and average likelihood of sustaining operations.
<b>BFR 5</b>	<b>Weak.</b> Weak quality of management and 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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- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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