



The Pakistan Credit Rating Agency Limited

Rating Report

KTRADE Securities Limited

Report Contents

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

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Nov-2023	A-	A2	Stable	Maintain	-
22-Nov-2022	A-	A2	Stable	Maintain	-
22-Nov-2021	A-	A2	Stable	Upgrade	-
26-May-2021	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

KTrade Securities Limited ('KTrade' or the 'Company') is an emerging brokerage house rapidly expanding its footprint in the equity brokerage space. KTrade focuses primarily on equity brokerage while diversification is present in the form of corporate finance and money market operations. Through a focus on technological platforms aimed at attracting new retail investors, the Company has steadily increased its market presence and ranks near the top amongst brokerage houses that have successfully added new UINs. The ratings take into account the business acumen of the primary sponsor - Oxford Frontier Capital, a UK based Fintech focused VC/PE. The primary sponsor provides access to capital, expertise and global networking for KTrade. The governance structure is considered sound with the presence of independent directors and board committees well noted. 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 audit, compliance, and risk management functions are present for an efficient control environment. Addition of a dedicated risk management head has strengthened the control framework further. Due to limited investor interest, political turmoil, and high interest rates, the market performed poorly during FY23, with a volumetric decline of ~33% when compared with FY22. Consequently, KTrade's topline also fell by ~33% to ~PKR 87mln during FY23 (SPLY: ~PKR 129mln). Despite the rising inflation and subdued market interest in FY23, the Company managed to reduce its administrative expenses by ~17% and provided support to the topline through ~PKR 54mln of other income (SPLY: ~PKR 30mln). However, ~PKR 48mln incurred on account of capital loss on proprietary book meant that the Company suffered from a loss after tax of ~PKR 135mln during FY23 (SPLY: ~PKR 116mln). The ratings take comfort from a zero-leveraged capital structure. The equity base of the Company stood at ~PKR 391mln at end-Jun'23.

Going forward, the materialization of planned business strategies to provide boost to the topline is critical to the ratings. Improvement in market share and sustaining profitability from core operations remain crucial. Meanwhile, upholding strong internal controls, sound governance structure, retention of key management personnel and diligent monitoring of risks is important

Disclosure

Name of Rated Entity	KTRADE Securities Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Broker Entity Rating(Aug-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Brokerage & Securities(Jan-23)
Rating Analysts	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 the Company - Mr. Ali Farid Khawaja. The remaining stakes of KTrade Securities Limited 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 the Company 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 Securities Limited 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 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.

Transparency 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

Organizational Structure The Company has a lean organizational structure where all Heads of the departments are directly reportable to the CEO. KTrade Securities Limited 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. Rameez the MD-Sales has a master's degree and he has more than 15 years of experience in the field of brokerage. 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.

Management Effectiveness 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.

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

Business Risk

Industry Dynamics The brokerage industry faced significant challenges during FY23 due to elevated political uncertainty and soaring inflation, which adversely impacted the country's economic landscape. As a result, market activities were subdued, with investors favoring the security of fixed returns from the higher interest rates prevalent in the economy. However, as FY24 commenced, there emerged a recovery in investor confidence. This can be attributed to the resumption of the IMF program and recent government initiatives aimed at tackling persistent economic issues, including addressing circular debt. Despite these positive trends, the political situation in the country remains unstable, leading many investors to adopt a cautious stance until the conclusion of the elections.

Relative Position The Company's current market share in FY23 remained stable at 1.5% on account of retail-based as well as institutional clients of the Company

Revenues The major portion of the topline of the Company relies on brokerage income only. The Company also provides advisory services, and research services to foreign companies and is also involved in Margin Financing Services. The Company is currently focusing on increasing its client base, for which human resources have been taken on board along with geographical diversification. The Company's operating revenue declined by ~32% to stand at ~PKR 87mln at end-Jun'23 (FY22: ~PKR 129mln) whereas the market volumes declined by ~33% during FY23 when compared with FY22, which shows that the Company able to perform in lined with the market.

Cost Structure Operating expenses declined to ~PKR 226mln at end-Jun'23 as compared to the amount ~PKR 272mln in SPLY.

Sustainability Going forward, KTrade Securities Limited plans to enhance its footprint in the retail universe. The Company 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 Risk

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 the Company 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-Jun'23, the current assets stood at ~PKR 631mln as compared to current liabilities of ~PKR 308mln. The Company also has short-term investments of ~PKR 119mln in T-Bills.

Capital Structure The Company has a zero-leveraged capital structure. At end-Jun'23, KTrade Securities Limited equity stood at a reasonable ~PKR 391mln reflecting the capacity to absorb losses.



PKR mln

KTRADE Securities Limited
Unlisted Public Limited

Jun-23	Jun-22	Jun-21
12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-
2 Investments	140	216	123
3 Other Earning Assets	152	103	30
4 Non-Earning Assets	407	482	711
5 Non-Performing Finances-net	-	-	-
Total Assets	700	801	863
6 Funding	-	44	-
7 Other Liabilities (Non-Interest Bearing)	309	224	357
Total Liabilities	309	269	357
Equity	391	533	506

B INCOME STATEMENT

1 Fee Based Income	87	131	159
2 Operating Expenses	(226)	(272)	(165)
3 Non Fee Based Income	6	24	16
Total Operating Income/(Loss)	(133)	(117)	10
4 Financial Charges	(1)	(0)	(0)
Pre-Tax Profit	(134)	(117)	9
5 Taxes	(1)	0	(4)
Profit After Tax	(135)	(116)	5

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	-0.7%	-0.2%	1.7%
Return on Equity (ROE)	-34.6%	-24.9%	1.4%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	55.8%	66.5%	58.6%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + U	-19763.3%	-74253.1%	-7321.1%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	62.6%	71.5%	61.9%
Liquid Assets / Trade Related Liabilities	168.5%	296.3%	205.6%

4 Credit & Market Risk

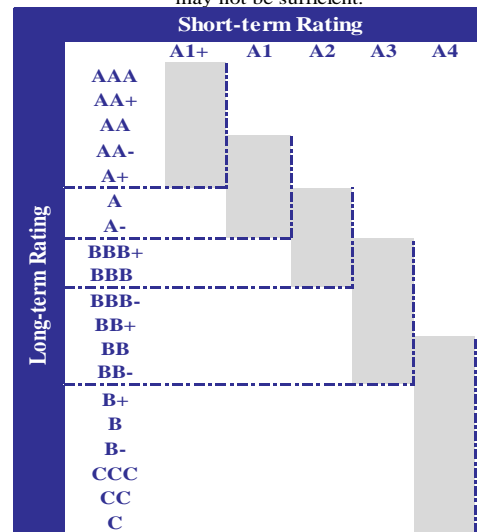
Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	110.9%	90.1%	94.3%
Equity Instruments / Investments	65.8%	32.0%	43.7%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

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.

Note. This scale is applicable to the following methodology(s):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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Rating Team Statements

(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

Restrictions

- (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)

Independence & Conflict of interest

- (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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