



The Pakistan Credit Rating Agency Limited

Rating Report

Spectrum Securities Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
21-Nov-2023	BFR 3+	Stable	Upgrade	-
30-Nov-2022	BFR 3	Stable	Maintain	-
20-Dec-2021	BFR 3	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	Mr. Muhammad Owais holds the majority stakes of SSL with ~83% ownership. The business acumen of the primary sponsor is well noted. An injection of PKR 210mln into the Company by the primary sponsor showcases his continued support and commitment towards SSL.
Governance	The Company has a small board comprising three directors. The presence of an independent director and board committees enhances oversight.
Management and Client Services	The ratings draw comfort from an experienced and qualified management team. Segregation of key management roles would improve the organizational structure further. Client services are considered adequate with research and online trading portals available.
Internal Controls and Regulatory Compliance	Separation of internal audit and compliance functions is present, providing a good control framework. Oversight may be further improved by the inclusion of an independent director on the board audit committee.
Business Sustainability	The Company has managed to outperform the market during 1QFY24, with market volumes increasing by ~31% during the quarter as compared to SPLY, while SSL's topline grew by an impressive ~69% during the same period. Moreover, diversification has been added to the topline through the inclusion of RBFS, while MFS & MTS also provide support
Financial Sustainability	The recent injection has boosted the equity base of the Company to ~PKR340mln at end-Sep'23. A zero leveraged capital structure provides comfort.

Key Rating Drivers

Spectrum Securities Limited ('SSL' or the 'Company') is focused on increasing its market presence and renown. With the equity injection, increased product diversification and plans to enhance its geographical footprint, SSL has taken firm steps to realizing its goals. Market share of the Company has also shown improvement during 1QFY24. Moving forward, it is imperative from a ratings perspective to maintain topline growth, revenue diversification, and profitability. Moreover, retention of key management personnel and further separation of management roles remain critical.

Disclosure

Name of Rated Entity	Spectrum 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)
Rating Analysts	Hassaan Ahmad Hassaan.Ahmad@pacra.com +92-42-35869504

Profile

Background Spectrum Securities Limited, “SSL or the Company” was incorporated under the Companies Ordinance 1984 after the acquisition of TREC from M/S Mazhar Hussain Securities (Pvt.) Limited in the year 2000. SSL is a Corporate Member of the Pakistan Stock Exchange and registered with SECP.

Operations SSL primarily provides the services of equity brokerage while clients are also facilitated with in-house research. The clientele of the Company is segregated into three categories i) HNWI ii) Financial institutions/Corporates iii) Retail.

Ownership

Ownership Structure Recently, there has been a shift in the shareholding pattern. Mr. Muhammad Owais, who previously held around 51% ownership rights, now possesses approximately 83% of the shares, and the CEO-Mr. Ahmed Nabeel owns ~2% of the shareholding.

Stability The formation of a written shareholding agreement and succession plan would be a strengthening factor.

Business Acumen The Company’s sponsor possesses the relevant educational background and ample industry understanding. The overall assessment of the strategic thinking proficiency of sponsors is comfortable.

Financial Strength The sponsors have considerable net worth and may inject capital in the Company with increasing quantum of operations. This also shows the sponsors commitment in case a financial need arises.

Governance

Board Structure The company's board consists of three directors, including CEO Mr. Ahmed Nabeel. Mr. Muhammad Umair Arif (CFO) is an executive director, and Mr. Muhammad Harris serves as an independent director, contributing to a strengthened governance profile.

Members' Profile The board has the essential skills and experience required for the capital markets. On average, board members have over 20 years of experience in finance and capital markets.

Board Effectiveness To establish an efficient control environment and ensure compliance with reporting standards, the company has established board-level committees, including the Audit Committee, HR Committee, Risk Management Committee, and Investment Decision Making Committee.

Financial SSL has appointed Nasir Javed Masood Imran & Company Chartered Accountants as its external auditor which falls in the B category of the SBP’s panel of auditors.

Management And Client Services

Organizational Structure The Company has an adequate organizational structure with an experienced management team and a balanced mix of professionals from the finance industry. The functions of the Company are mainly divided into 1) Sales 2) Research 3) Operations (Settlement, CS & IT) 4) HR 5) Compliance, and 6) Internal Audit.

Management Team Mr. Ahmed Nabeel, the CEO, and Mr. Muhammad Umair Arif, the CFO and Company Secretary are integral parts of SSL's senior management. Mr. Ahmed Nabeel brings over twenty-five years of diverse experience in the capital market. Mr. Muhammad Umair holds a Master's degree and has been with the company since 2015, serving as the CFO and Company Secretary. Mr. Umair Arif also leads the Compliance department.

Client Servicing The Company has provided its customers with various channels, including a mobile app and online trading platform to facilitate for execution and monitoring of their transactions. Moreover, SSL provides technical and fundamental research reports to its clients.

Complaint Management The company has a well-established complaint management system with a clearly defined policy in place. Complaints can be submitted through email, phone calls, and the company's website.

Extent Of Automation / Integration The Company has integrated database platforms and can generate real-time MIS reports on timely basis.

Continuity Of Operations The Company has well-defined Disaster Recovery and Business Continuity Plans supported by adequately drafted policies. The DRP/BCP systems are tested bi-annually with the secondary data storage site at different premises.

Internal Controls And Regulatory Compliance

Risk Management Framework To ensure operational efficiency and appraisal of internal controls, the Company has an in-house internal audit department, which implements and monitors the policies and procedures of the Company. Audit Committee is responsible for overseeing the Company's significant risk areas; assessed by the management and internal or external auditor as well as the related controls to mitigate such risks. An independent risk management department would have further strengthened the risk management Framework

Regulatory Compliance Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures. Research analyst policy has also been formulated. However, the separation of compliance and finance functions is encouraged.

Business Sustainability

Operating Environment FY23 has been a challenging year for the brokerage industry. High political uncertainty along with high inflation crippled the economic condition of the country. Market volumes remained subdued as investors opted for the safer fixed market returns resulting from the high interest rates prevailing in the economy. However, the start of FY24 has seen a recovery in the confidence of investors. The resumption of the IMF program and the recent steps taken by the government to address longstanding economic issues such as the reduction of circular debt has boosted the market volumes. That being said, political turmoil still prevails in the country and many investors are still waiting for the conclusion of the election process before showing their hands.

Performance The Company's operating revenue is mainly concentrated in equity brokerage. During FY23, the equity brokerage revenue stood at ~PKR 42mln depicting a decline of ~38% (SPLY: ~PKR 68mln). Whereas, in 1QFY24 the equity brokerage revenue was reported at ~PKR 18mln, (SPLY: ~PKR10mln). During 1QFY24, SSL earned a net profit of ~PKR 3mln (SPLY: a net loss of ~PKR 5mln). The profit is on account of increased revenue due to better market performance and the other income of ~PKR 7mln (SPLY: ~PKR 3mln). However, during 1QFY24, SSL performed comparatively better as compared to FY23. The market volumes during 1QFY24 increased by ~31% when compared with 1QFY23 whereas the revenue of SSL elevated by ~69%.

Strategy The management has plans to capture the north markets. The long-term focus is to cater the Institutional and HNWI clientele

Financial Sustainability

Credit Risk The company has comprehensive KYC/CDD procedures to evaluate client creditworthiness. As of the end-Jun'23, the company has outstanding receivables of ~PKR 4mln.

Market Risk The Company is running its own proprietary book with a market value of ~PKR 26mln at end Jun'23 and ~PKR 52mln at end Sep'23 which constitutes ~15% of the equity thus exposing the Company to limited market volatility.

Liquidity Risk The Company has an adequate liquidity profile as the Company has reported current assets of ~PKR 403mln at end-Sep'23 as compared to current liabilities of ~PKR 85mln.

Capitalization The Company has an adequate capitalization level with regulatory Liquid Capital Balance (LCB) standing at ~PKR 46mln at end-Jun'23. The Company's equity stood at ~PKR 126mln at end- Jun'23. To further improve the equity, the primary sponsor has injected ~PKR 210mln into the Company during the quarter ended Sep'23. Therefore, during 1QFY24, the equity stood at ~PKR 340mln. However, approval of the enhancement of paid-up capital is currently pending by the SECP.

PKR mln

Spectrum Securities Limited	Sep-23	Jun-23	Jun-22	Jun-21
	3M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	12	21	16
2 Investments	52	26	82	56
3 Other Earning Assets	322	74	86	146
4 Non-Earning Assets	51	51	56	103
5 Non-Performing Finances-net	-	-	-	-
Total Assets	425	162	244	321
6 Funding	-	-	2	120
7 Other Liabilities (Non-Interest Bearing)	85	36	82	14
Total Liabilities	85	36	84	134
Equity	340	127	160	187

B INCOME STATEMENT

1 Fee Based Income	18	42	68	118
2 Operating Expenses	(22)	(74)	(89)	(100)
3 Non Fee Based Income	7	1	3	30
Total Operating Income/(Loss)	3	(32)	(18)	48
4 Financial Charges	(0)	(1)	(0)	(0)
Pre-Tax Profit	3	(33)	(18)	48
5 Taxes	-	1	(2)	(9)
Profit After Tax	3	(32)	(20)	39

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	19.0%	-78.3%	-26.2%	40.6%
EBITDA/ Revenue	19.0%	-70.0%	-23.3%	40.6%
Profit / (Loss) Before Interest & Taxes / Total Assets	0.8%	-19.7%	-7.3%	14.9%

2 Financial Sustainability

Total Investments / Equity	15.3%	20.7%	51.4%	30.1%
NCB / Equity	0.0%	0.0%	0.0%	0.0%
LCB/ Total Equity	0.0%	36.7%	30.9%	0.0%
(Cash & Cash Equivalents + Government Securities) / Total Assets	83.2%	64.6%	50.2%	74.2%
Total Debt / Equity	0.0%	0.0%	1.2%	5.3%

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

- 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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- (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).
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- (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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