



The Pakistan Credit Rating Agency Limited

## Rating Report

### Spectrum Securities Limited | BMR

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Nov-2021	BMR3+	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The assigned rating of Spectrum Securities Limited ("SSL" or the "Company") incorporates adequate ownership structure, satisfactory regulatory framework, sound internal controls and strong business acumen of sponsor. The Company has adequately defined organizational hierarchy where the responsibilities and reporting lines are logically structured. The assigned rating takes into account a sound IT infrastructure supported by defined IT, disaster recovery and back-up policy. The Company provides prudent services to its clients in the form of complaint management, access to technical and fundamental reports and a dynamic reporting mechanism. The Company primarily provides the services of equity brokerage and research with an average market share of ~1.5% in FY21. The Company has competitive clientele; however, limitation in revenue diversification exists. Further, governance framework is considered to be sound as an independent insight provides comfort. The rating also incorporates low leveraged capital structure of the Company. Timely materialization of outstanding receivable is important. The Company is running a proprietary book; however, the magnitude of short-term investments are nominal as compared to equity. In line with the improving volumes of equity market in FY21, the Company witnessed a significant increase of ~1.16x in the brokerage income. At end-Jun'21, the brokerage revenue stood at ~PKR 118mln (SPLY: ~PKR 55mln). The Company has a reasonable capitalization level with regulatory Net Capital Balance (NCB) standing at ~PKR 92mln at end-Jun'21.

Improvement in equity through further capital injection and reduction in outstanding receivables will be important, going forward. The rating is dependent on the management's ability to enhance its market share to improve its competitive position in the brokerage industry. Retention of key personnel, improvement in customer servicing tools and maintaining strong controls will remain critical.

#### Disclosure

<b>Name of Rated Entity</b>	Spectrum Securities Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	Methodology   Broker Management Rating(Jul-21)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-21)
<b>Rating Analysts</b>	Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504



### Ownership

**Ownership Structure** Spectrum Securities Limited ("SSL" or the "Company") is primarily owned by individuals. Controlling stakes are held by Mr. Muhammad Owais at ~51%, while the CEO Mr. Ahmed Nabeel also owns ~20% of the ownership.

**Stability** The Company is a TREC Holder of Pakistan Stock Exchange Limited was formed on October 27, 2014. The Company was acquired from M/S Mazhar Hussain Securities (Pvt.) Limited in December, 2000.

**Business Acumen** The Company's sponsor possess relevant educational background and extensive industry specific working knowledge. The overall assessment of strategic thinking capability of sponsors is comfortable.

**Financial Strength** The main sponsor, Mr. Muhammad Owais has adequate net worth and may provide financial support in time of need.

### Governance

**Board Structure** The Company's board comprise of three directors including the CEO – Mr. Ahmed Nabeel. Mr. Muhammad Imran Arif (COO) serves as an executive director while Mr. Munir Hussain is an independent director which enhances the governance profile.

**Members' Profile** The board members are experienced and possess the necessary skills and qualification to manage the business successfully.

**Board Effectiveness** The experience of the board helps in providing useful insight into the business management and guiding the management in effectively developing optimizing the organizational procedures and policy. The board meeting is held quarterly. Board minutes are very concise and capture details of the discussion. The Company has formed HR committee, Audit Committee and the Risk Management Committee at the board level in line with industry best practices.

**Financial Transparency** Nasir Javed Maqsood Imran & Co. has been engaged as the Company's external auditors during FY21. The auditor is ranked as Category B auditor on the panel of SBP auditors list.

### Management

**Management Team** The CEO Mr. Ahmed Nabeel, the CFO Mr. Muhammad Umair Arif and the COO Mr. Muhammad Imran Arif act as part of the senior management of Spectrum Securities Limited. Mr. Ahmed Nabeel has an extensive and diversified experience in the field of capital market spanning over twenty five years. Mr. Muhammad Umair possess Masters's education and has been with the company since 2016 and serves as the CFO and Company Secretary. The Compliance department is also headed by Mr. Umair Arif.

**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.

**Client Servicing** The Company maintains comprehensive account opening practices in line with regulatory requirements. To facilitate the clients, the Company offers an online trading platform. Account statements are provided to the clients as per the regulatory requirements.

**Complaint Management** The Company has an adequate complaint management system supported by adequately defined policy. Complaints can be made via email, calls and website. The Company has also provided direct links to the regulators on its 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.

**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 also responsible for overseeing the company's significant risk areas assessed by Management, Internal or external auditor as well as the related controls to mitigate such risk. An independent risk management department would have further strengthened the Risk Management Framework.

**Regulatory Compliance** The Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures. However, the segregation of Compliance and Finance function is encouraged.

### Business Sustainability

**Business Risk** Despite of attractive market fundamentals, during CY21 through October, the stock market has delivered a modest 5.6% return. The prevailing market valuations reflect overblown pessimism and positive view on the stock market are driven by: (i) attractive valuations, (ii) robust corporate profitability, (iii) abundant market liquidity, and (iv) easier financial conditions. The successful completion of the review will pave the way for the release of the USD 1bln from the IMF and facilitate flows from other multilateral agencies such as the Asian Development Bank, World Bank, and Islamic Development Bank. The upcoming reclassification from emerging to frontier markets may also improve the market volumes as experienced in the past.

**Business Profile** The Company primarily provides the services of Equity Brokerage and Research. The Company also deals in MTS/MFS services although the quantum of operation is not significant.

**Revenue And Profitability Analysis** The Company's main source of revenue is from commission on equity brokerage which clocked in at ~PKR 118mln for FY21 (SPLY: ~PKR 55mln) on account of increased volumes in the market. Accordingly, the Company earned a net profit amounting ~PKR 39mln for FY21 (SPLY: ~PKR 9.6mln).

### Financial Sustainability

**Credit Risk** The Company has detailed KYC/CDD procedures in place for the assessment of the client's creditworthiness. However, the Company has outstanding receivables of ~PKR 76mln at end-Jun'21, timely materialization of which is important.

**Market Risk** The Company is running its own proprietary book with market value of ~PKR 15mln at end-Jun'21. Since the magnitude of short-term investments at ~8% are nominal as compared to equity, the exposure to market risk remains low.

**Liquidity Profile** The Company reported current assets of ~PKR 291mln for FY21 as compared to current liabilities of ~PKR 134mln. Liquid assets are considered adequate to account for current liabilities of the Company.

**Financial Risk** The Company has an adequate capitalization level with regulatory Net Capital Balance (NCB) standing at ~PKR 92mln at end-Jun'21. The Company's equity stood at ~PKR 187mln at end-Jun'21.



**Spectrum Securities Limited**  
Public Unlisted

Jun-21	Jun-20	Jun-19
12M	12M	12M

**A BALANCE SHEET**

1 Finances	-	-	-
2 Investments	56	38	40
3 Other Earning Assets	146	81	42
4 Non-Earning Assets	118	83	70
5 Non-Performing Finances-net	-	-	-
<b>Total Assets</b>	<b>321</b>	<b>202</b>	<b>152</b>
6 Funding	10	10	-
7 Other Liabilities (Non-Interest Bearing)	124	57	24
<b>Total Liabilities</b>	<b>134</b>	<b>67</b>	<b>24</b>
<b>Equity</b>	<b>187</b>	<b>135</b>	<b>127</b>

**B INCOME STATEMENT**

1 Fee Based Income	118	55	28
2 Operating Expenses	(100)	(50)	(40)
3 Non Fee Based Income	30	7	(7)
<b>Total Operating Income/(Loss)</b>	<b>48</b>	<b>12</b>	<b>(20)</b>
4 Financial Charges	0	0	(0)
<b>Pre-Tax Profit</b>	<b>48</b>	<b>12</b>	<b>(20)</b>
5 Taxes	(9)	(2)	(1)
<b>Profit After Tax</b>	<b>39</b>	<b>10</b>	<b>(21)</b>

**C RATIO ANALYSIS**

**1 Cost Structure**

Financial Charges / Total Operating Income/(Loss)	0.0%	-0.1%	-0.1%
Return on Equity (ROE)	31.9%	9.2%	-12.3%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	58.3%	66.8%	84.0%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	-15226.27	-1189.52	-236.30

**3 Liquidity**

Liquid Assets / Total Assets (D+E+F)	18.6%	17.8%	25.5%
Liquid Assets / Trade Related Liabilities	54.3%	65.7%	169.9%

**4 Credit & Market Risk**

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	12.9%	4.9%	62.1%
Equity Instruments / Investments	100.0%	100.0%	100.0%

**Broker Management Rating**

An independent opinion on the quality of management and services provided by the broker

Scale	Definition
<b>BMR 1A</b>	<b>Excellent.</b> Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++</b> <b>BMR 1+</b> <b>BMR 1</b>	<b>Strong.</b> Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++</b> <b>BMR 2+</b> <b>BMR 2</b>	<b>Sound.</b> Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++</b> <b>BMR 3+</b> <b>BMR 3</b>	<b>Adequate.</b> Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++</b> <b>BMR 4+</b> <b>BMR 4</b>	<b>Inadequate.</b> Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak.</b> Weak regulatory compliance and business practices.

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