



The Pakistan Credit Rating Agency Limited

Rating Report

Zafar Securities (Pvt.) Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
31-Mar-2022	BFR 3+	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	Majority shares are owned by the CEO, Mr. Syed Asim Zafar with an ownership stake of ~80%. A formal succession plan may provide comfort.
Governance	ZSPLs board comprised of three directors including the CEO. Ms. Syeda Khola Hussain has passed away recently for which the replacement is in process.
Management and Client Services	ZSPL has a lean organizational structure with experienced management. Client servicing may be improved further with a research department.
Internal Controls and Regulatory Compliance	ZSPL has sound internal control and regulatory compliance supported by separate internal audit and compliance department.
Business Sustainability	The revenue stream is concentrated to equity brokerage, diversification of which may provide support to the topline.
Financial Sustainability	ZSPL has an adequate capitalization level with an equity of PKR 286mln at end Jun 21.

Key Rating Drivers

Zafar Securities (Pvt.) Limited (ZSPL or the Company) is primarily engaged in the provision of equity brokerage services. The assigned rating incorporates adequate ownership structure and governance framework which may be improved with an increase in board size and inclusion of independent insight. The organizational structure is adequate and the segregation of internal audit and compliance function is well noted; however, the same may be strengthened further with addition of human resource. Clients have been provided with access to online trading terminal and a formal compliant management system. Formation of research department would be encouraging. The IT infrastructure is sound supported by established IT policy and off-site data backup. The internal control and regulatory compliance are considered adequate whereby the Company has established policies and procedures. The topline is primarily concentrated to commission from equity brokerage which clocked in at ~PKR 87mln for FY21 (SPLY PKR 39mln). The product slate may be diversified further to support the topline. The concentration of revenue from top ten investors has a room for improvement. The rating also incorporates the leverage free capital structure.

Disclosure

Name of Rated Entity	Zafar Securities (Pvt.) Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology Broker Fiduciary Rating(Jan-21)
Related Research	Sector Study Brokerage & Securities(Jan-22)
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Profile

Background: Zafar Securities (Pvt.) Limited, “ZSPL or The Company” is a TREC holder of Pakistan Stock Exchange and a Member of Pakistan Mercantile Exchange Limited. It was incorporated under the Companies Ordinance 1984 in 1999 as a private limited Company.

Operations: The Company’s service offering includes equity brokerage and commodity brokerage. The Company primarily provides the services of equity and commodity brokerage. The clientele of the Company is mainly segmented into three categories i) Retail ii) HNWI’s and iii) Corporate/Institutional, while corporate clientele makes up a minor part of their customer portfolio.

Ownership

Ownership Structure: Controlling stakes are held by the CEO Mr. Syed Asim Zafar at ~80%, The second highest ownership belonged to Miss Syeda Khola Hussain who owned 20% of the total shares. Miss Khola has unfortunately passed away at the end of October 2021, and there has been a formal vote to induct three new directors, two non-executive and one executive.

Stability: Formation of written shareholding agreement and succession plan would be a strengthening factor.

Business Acumen: The Company’s sponsor possesses relevant educational background and extensive industry specific working knowledge. Mr. Syed Asim Zafar has served on the Board of Directors of Lahore Stock Exchange Limited for multiple years from 1994 to 2007. He is also a Founder Member of Pakistan Mercantile Exchange.

Financial Strength: The sponsors have adequate net worth and may inject capital in the Company with increasing quantum of operations.

Governance

Board Structure: The Company’s Board of Directors (BoD) comprised of three members, including the CEO, two of whom are executive and have ownership shares in the Company. With the recent death of Miss Khola, the plan is for three new directors to be added, two non-executive and one executive.

Members’ Profile: The board possess the necessary skills and experience required for capital markets. The board members possess a diversified background of the finance and capital markets while also having an entrepreneurial background of the textile industry.

Board Effectiveness: To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee, HR Committee and Executive Risk Management Committee. ZSPL also has multiple Management committees including Investment Committee, IT Steering Committee, Web Development & Online Marketing Committee and the Fraud and Ethics Committee.

Transparency: The external auditors of the Company are Amin, Mudassar and Company Chartered Accountants having satisfactory QCR rating from the Institute of Chartered Accountants of Pakistan. The auditors of the Company are classified in the ‘B’ category of State Bank of Pakistan panel of Auditors.

Management and Client Services

Organizational Structure: The Company has a lean organizational structure. ZSPL operates through seven departments namely i) Trading & Settlements ii) Accounts iii) Information Technology iv) Human Resource v) Marketing & Sales vi) Research vii) Internal Audit. All of the departmental heads directly report to the CEO. However, the Internal Auditor reports to the Board’s Audit Committee.

Management Team: ZSPL’s management team comprises of experienced and professional individuals who possess significant market knowledge. The CFO Mr. Agha Shuja Ali Zaidi has a Master’s Degree and has been overseeing the financial operations for more than 15 years. The head of IT has more than 20 years of industry experience and has been with the Company for more than 16 years.

Internal Controls and Regulatory Compliance

Client Servicing: ZSPL has provided its customers with various channels, including a mobile app and online trading platform to facilitate them for execution and monitoring of their transactions.

Complaint Management: ZSPL has a feedback area on its website which can be used to lodge complaints and investors can lodge initial complaints through phone calls, SMS/WhatsApp, Email, Website and by physical appearance; however, the main query system in place for complaints is through their website.

Extent of Automation / Integration: ZSPL has a customized technology driven trading platform that allows secure trading. ZSPL's back office and web portal are both purchased from Softech resulting in real-time integration between the two.

Continuity of Operations: ZSPL has in place a comprehensive Disaster Recovery Policy which provides a guidance for resuming all the critical operations in the shortest possible time. The data pertaining to back-office records and back-office applications is being backed up once a day.

Risk Management Framework: ZSPL has established Risk Management Committee at board level for reviewing risk appetite, policies and controls put in place. ZSPL has an in-house internal audit function comprising of a single person. ZSPL has standardized, policy-based risk management procedures.

Regulatory Compliance: ZSPL's compliance department ensures that it is compliant with all the PSX requirements and other regulatory (AML/CFT) that pertain to its particular industry, as well as professional standards, accepted business practices, and internal standards.

Business Sustainability

Operating Environment: Pakistan's economy staged a recovery and posted a 3.9% growth in FY21, with an anticipated accelerated growth driven by falling Covid-19 cases, un-interrupted service sector activity and pent-up demand in some sectors of the economy. During CY21, the stock market remained range bound and posted a 1.9% return, bottoming at 42,780 points in March and peaking at 48,726 points in mid of June. Going forward, the revival of EFF facility with the IMF will allow the resumption of multilateral flows of IFIs, easing pressure on the Balance of Payments. The channeling of liquidity may materialize this year, resulting in possible improvement of market volumes.

Performance: ZSPL's operating revenue is mainly concentrated to equity brokerage. During FY21, brokerage commission stood at ~PKR 87mln (SPLY: ~PKR 39mln) and contributed ~84% to the total revenue. ZSPL reported net profit of PKR ~91mln in FY21 compared to a profit of ~PKR 2mln in FY20. The profit in FY21 was supported by realized/unrealized gain.

Strategy: The management is considering to focus on better integration with technology moving forward. The Company is focusing on enhancing their retail clientele by improving their technology integration as well as their social media presence.

Financial Sustainability

Credit Risk: As part of its credit policy, ZSPL reviews withdrawal requests of their clients on case-to-case basis and checks for any outstanding balances before the withdrawal of funds. Moreover, the Compliance department reviews the credit worthiness of new customers, whereas, KYC and AML policy also exists for further support. A formal credit risk policy should be in place.

Market Risk: ZSPL is running a proprietary book with an approximate value of Rs. ~82mln at end-Jun'21. However, it has established an appropriate proprietary trading policy.

Liquidity Risk: ZSPL has adequate liquidity profile. The Company reported current assets of ~PKR 522mln for FY21 as compared to current liabilities of ~PKR 322mln.

Capitalization: The Company has a reasonable capitalization level with regulatory Net Capital Balance (NCB) standing at PKR 181mln at end-Jun'21. The Company has an equity base of ~PKR 285mln at end-Jun'21 (SPLY ~PKR 184mln).

PKR mln

Zafar Securities (Pvt.) Limited	Jun-21	Jun-20	Jun-19	Jun-18
	12M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	82	60	64	79
3 Other Earning Assets	150	37	15	20
4 Non-Earning Assets	376	250	201	248
5 Non-Performing Finances-net	-	-	-	-
Total Assets	607	347	281	348
6 Funding	-	26	26	137
7 Other Liabilities (Non-Interest Bearing)	322	137	72	10
Total Liabilities	322	163	98	147
Equity	286	184	182	201

B INCOME STATEMENT

1 Fee Based Income	104	43	35	63
2 Operating Expenses	(70)	(58)	(48)	(85)
3 Non Fee Based Income	55	19	(17)	(54)
Total Operating Income/(Loss)	89	4	(31)	(76)
4 Financial Charges	(0)	(0)	(0)	(0)
Pre-Tax Profit	88	4	(31)	(77)
5 Taxes	3	(1)	(1)	-
Profit After Tax	91	2	(32)	(77)

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	85.3%	8.2%	-89.1%	-122.4%
EBITDA/ Revenue	89.9%	19.5%	-74.1%	-114.4%
Profit / (Loss) Before Interest & Taxes / Total Assets	14.6%	1.1%	-11.0%	-22.0%

2 Financial Sustainability

Total Investments / Equity	28.7%	32.8%	35.3%	39.3%
NCB / Equity	63.5%	36.2%	26.0%	49.3%
LCB/ Total Equity	62.1%	33.4%	26.9%	49.1%
(Cash & Cash Equivalents + Government Securities) / Total Assets	76.4%	68.3%	49.8%	52.7%
Total Debt / Equity	0.0%	14.0%	14.2%	16.0%

Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management and client services and sustainability of operations

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

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) 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.

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.

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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)

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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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