



The Pakistan Credit Rating Agency Limited

Rating Report

Ismail Iqbal Securities (Pvt.) Limited | BFR

Report Contents

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

Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
13-Jun-2022	BFR 3	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	The CEO, Mr. Ahfaz Mustafa owns the majority shareholding of ~65%. Remaining stakes are divided among family members.
Governance	The board is comprised of two members including Mr. Ahfaz Mustafa. The board size may be enhanced further to improve governance structure.
Management and Client Services	Organizational structure commensurate with scale of operations. Clients have been provided with online trading and research services.
Internal Controls and Regulatory Compliance	Presence of internal audit, independent compliance function and well-defined policies may strengthen the internal controls.
Business Sustainability	Major part of revenue emanates from equity brokerage; diversification may provide support to the topline.
Financial Sustainability	The prop-book which constitutes ~37% of equity results in market risk exposure. A low leveraged capital structure brings comfort to the rating.

Key Rating Drivers

Ismail Iqbal Securities (Pvt.) Limited (“IISPL” or “the Company”) operating through its head office in Karachi, primarily caters to domestic HNWI and Institutional clients. The assigned rating incorporates a lean organizational structure comprising of a seasoned team. The Company has provided its clients access to online trading and in-house research reports. Client services may be enhanced by introducing a dedicated customer service department and complaint management system with tracking functionality. The rating takes into account an adequate internal control framework which could be improved with the presence of an internal audit function. Separation of compliance function from finance is important from the ratings perspective. An independent risk management function may be considered in line with increasing business quantum. Moreover, room for improvement exist with respect to the development and implementation of well-defined policies. The topline has shown improvement in recent years; however, diversification in product slate is important. Presence of prop-book results in a volatile bottom-line and erosion in equity and a potential conflict of interest. There is a need to enhance the equity base while a low leveraged capital structure brings comfort to the rating. The governance framework can be improved with the inclusion of an independent insight. The rating incorporates the long-standing experience of the sponsor. Going forward, sustainability and improvement in profitability from core operations is critical.

Disclosure

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

Background: Ismail Iqbal Securities (Pvt.) Limited ('IISPL' or the Company), with its inception in the year 2004, became a Corporate Member of the Karachi Stock Exchange. IISPL is presently a TREC holder of the Pakistan Stock Exchange, as well as an SECP registered Underwriter and Book Runner.

Operations: Ismail Iqbal Securities (Pvt.) Limited operates through two branches, both in Karachi. The Company's brokerage services mainly comprise of equity. The Company deals in equity trading, while providing margin trading services as well.

Ownership

Ownership Structure: IISPL is a family-owned business and the stakes are being divided among family members where the majority of shareholding lies with Mr. Ahfaz Mustafa (65%). The remaining stake is held by his sister Ms. Ayesha Naseem and brother Mr. Azhar Iqbal (17.5%) while Mr. Muhammad Taufique also holds one share.

Stability: Mr. Ahfaz Mustafa has been involved in multiple successful business ventures through his family, indicating his strong business knowledge and experience.

Business Acumen: The Company sponsors 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. Ahfaz Mustafa has a sizeable personal net worth along with a well-established and well-known family group.

Governance

Board Structure: The Company's board of directors comprises two experienced individuals including the CEO - Mr. Ahfaz Mustafa. The other director, Mr. Muhammad Taufique is a non-executive director. The presence of an independent director would strengthen the governance framework.

Members' Profile: Both 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.

Board Effectiveness: To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee at the board level. The Committee is chaired by the non-executive director.

Transparency: Baker Tilly Mehmood Idrees Qamar are the external auditors and are ranked in the 'A' category in the State Bank's list of approved auditors. The auditor has expressed an unqualified opinion on IISPL's financial statements for FY21.

Management and Client Services

Organizational Structure: The Company has a lean organizational structure with the following departments, i) Finance, ii) Compliance, iii) IT, iv) Research, v) Business Development, and vi) Equity Sales. All HODs report directly to the CEO and the Company has created all requisite positions to ensure smooth operations. Separation of functions such as compliance and risk management may bode well for IISPL moving forward.

Management Team: Mr. Ahfaz Mustafa is the CEO of the Company since 2008. He has nearly 14 years of experience in the equity market. Management team of the Company comprises seasoned professionals with considerable financial services sector experience. Mr. Fahad Rauf 'Head of Research' is a CFA level two and has an MBA, and has over 8 years of extensive experience in the areas of Equity Research, Economic Research, Financial Modeling & Valuations.

Client Servicing: The Company offers multiple account opening mediums. Similarly, various channels, including a mobile app, are available to customers to monitor their transactions. The Company has strong client reporting mechanism with account statements and market reports communicated to the clients on regular basis.

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's 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: IISPL has a detailed disaster recovery plan to ensure the business continuity at the time of disaster. Moreover, backups are maintained on daily basis.

Internal Controls and Regulatory Compliance

Risk Management Framework: The Company has a competent resource as head of Compliance to look after regulatory matters; however, he is also responsible for finance and risk management functions as well. Separation of these functions with a separate manager for each will be more in-line with industry's best practices.

Regulatory Compliance: 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: Pakistan's economy during CY21 made a recovery, with the market volumes reaching historic high levels; however, during the first 10 months of FY22, the market volumes declined, leaving an impact on brokerage revenue. The MSCI rebalancing gives some hope; however, the recent political turmoil inside the country has further derailed the market conditions, making it difficult to ascertain the future of the market moving forward. The recent increase in interest rate may help moderate the demand to a more sustainable pace while keeping inflation expectations anchored and containing risks to external stability.

Performance: IISPL earned operating revenue of ~PKR 72mln during 9MFY22 (SPLY: ~PKR 121mln). The decrease in revenue is a result of a combination of historic market volume highs during FY21 and the subsequent significant slowdown during 9MFY22. Accordingly, the Company made a loss after tax of ~PKR 41mln (SPLY: Profit of ~PKR 146mln). The losses emanate from realized and unrealized losses from prop-book. The average market share of the Company on volume traded basis for 9MFY22 stood at ~1.6%.

Strategy: Going forward, IISPL plans to continue focusing towards capturing more HNWI and Corporate clients, with a plan to enhance their corporate advisory footprint in the near future.

Financial Sustainability

Credit Risk: The main credit risk for a brokerage company results from providing clients margin facilities to trade through leverage. IISPL as a matter of policy does not allow clients the facility of leveraged trading or the T+2 practice that is common in the industry, apart from a select few clients with whom they have long-term relationships, thus limiting their credit risk exposure.

Market Risk: As at 3QFY22, the Company had short term investment portfolio of ~PKR 103mln (SPLY: ~PKR 225mln), which comprised quoted securities. Proprietary listed securities as compared to Company's equity comprised ~37% at end-Mar'22 (SPLY: ~69%). Trading in proprietary book creates conflict of interest, risk of front running and inherently bears market risk.

Liquidity Risk: At end-Mar'22, the current assets of ~PKR 578mln adequately covers the current liabilities of ~PKR 329mln. The Company also has PKR 475mln as running finance facilities available from banks to cover any exposure or cashflow requirements, of which ~PKR 75mln was utilized at end-Mar'22.

Capitalization: IISPL has an adequate capitalization level with regulatory Net Capital Balance (NCB) standing at ~PKR 254mln at end-Mar'22. The Company's equity stood at ~PKR 281 at end-Mar'22.

Ismail Iqbal Securities (Pvt.) Limited	Mar-22	Jun-21	Jun-20	Jun-19
	9M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	110	184	153	135
3 Other Earning Assets	14	100	43	30
4 Non-Earning Assets	489	396	521	356
5 Non-Performing Finances-net	-	-	-	-
Total Assets	614	680	717	522
6 Funding	42	75	165	235
7 Other Liabilities (Non-Interest Bearing)	290	283	275	10
Total Liabilities	332	358	440	245
Equity	281	322	278	277

B INCOME STATEMENT

1 Fee Based Income	72	160	65	49
2 Operating Expenses	(68)	(128)	(76)	(73)
3 Non Fee Based Income	(28)	43	40	(57)
Total Operating Income/(Loss)	(24)	75	29	(81)
4 Financial Charges	(10)	(19)	(27)	(15)
Pre-Tax Profit	(35)	56	2	(96)
5 Taxes	(6)	(11)	(2)	(7)
Profit After Tax	(41)	45	0	(103)

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	-47.8%	34.8%	3.2%	-195.6%
EBITDA/ Revenue	-33.3%	48.6%	48.8%	-158.7%
Profit / (Loss) Before Interest & Taxes / Total Assets	-3.9%	11.0%	4.1%	-15.5%

2 Financial Sustainability

Total Investments / Equity	39.2%	57.2%	55.1%	48.8%
NCB / Equity	90.2%	98.1%	25.8%	18.0%
LCB/ Total Equity	123.9%	90.9%	14.7%	12.5%
(Cash & Cash Equivalents + Government Securities) / Total Assets	74.6%	66.0%	75.9%	69.9%
Total Debt / Equity	14.8%	23.1%	59.4%	51.9%

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	Adequate. Adequate quality of management, client services and average likelihood of sustaining operations.
BFR 5	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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(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.
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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 | 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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