



The Pakistan Credit Rating Agency Limited

Rating Report

Ismail Iqbal Securities (Pvt.) Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
13-Jun-2023	BFR 3	Stable	Maintain	-
13-Jun-2022	BFR 3	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	The rating incorporates the long-standing experience of the sponsor Mr. Ahfaz Mustafa who owns the majority shareholding of ~65%. Remaining stakes are divided among family members.
Governance	Assigned rating takes into account governance framework consisting of two directors and one Board level committee. Inclusion of more board members along with independent representation may be considered to strengthen overall governance framework.
Management and Client Services	The rating factor in a lean organizational structure comprising of a seasoned management team. The clients have been provided with access to online trading and in-house research services. The Company may introduce a dedicated customer service department and complaint management system with tracking functionality.
Internal Controls and Regulatory Compliance	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 while 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.
Business Sustainability	The Company relies on equity brokerage as the primary source of revenue. In line with the market activity, the revenue has declined during the 1HFY23. Diversification of product slate may provide support to the topline during tough economic conditions.
Financial Sustainability	The Company is engaged in proprietary trading which exposes the bottom line to market volatility as could be seen from a loss after tax of ~PKR 26mln. A low leveraged capital structure brings comfort to the rating.

Key Rating Drivers

The assigned rating incorporates a sound business acumen of the sponsor, a seasoned management team, and a low-leveraged capital structure. However, the rating is constrained by the governance structure and internal control framework which may be improved further. The rating is dependent on maintaining the market share, low leverage metrics, retention of key management, and, improvement and sustainability in the financial profile.

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-23)
Related Research	Sector Study Brokerage & Securities(Jan-23)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504

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 deals in equity trading which is the primary source of revenue, while also engaging in the underwriting of new IPOs and rights issues along with services of MTS/MFS.

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 (17.4% each) 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 backgrounds and extensive industry-specific working knowledge. The overall assessment of the 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 and a non-executive director - Mr. Muhammad Taufique. 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.

Financial Baker Tilly Mehmood Idrees Qamar is the external auditor and is 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 FY22.

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. The 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 is an MBA with 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 a strong client reporting mechanism with account statements and market reports communicated to the clients on a regular basis. IISPL has recently revamped the website by improving the user interface and providing dedicated sections for grievances and complaints, research data, links to different regulators, and more.

Complaint Management An adequate complaint management system is in place. Complaints can be made via e-mail, SMS, calls, and website. IISPL may consider implementing a ticket-based complaint management system with in-built tracking to cater the increase in clientele over time.

Extent Of Automation / Integration The front-end and back-end software 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 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, Mr. Saddam Hussain, as the head of Compliance to look after regulatory matters; however, he is also responsible for finance and risk management functions. Separation of these functions with a separate manager for each will be more in-line with the industry's best practices. IISPL may consider forming an internal audit department to further strengthen the control framework.

Regulatory Compliance The Compliance Department ensures regular monitoring of controls and systems, which validates all functions are in line with the applicable policies and procedures.

Business Sustainability

Operating Environment Pakistan's economy so far during 1HFY23 has remained largely volatile. From international aspects such as the global recession and Russia-Ukraine war to the domestic political uncertainty and flash floods devastating a major part of the country, the investors have had no confidence in the market. Traded volumes have remained low which has affected the top line of the brokerage industry as a whole. Moving forward, political stability after elections may play a large factor in the possibility of stabilizing the market; however, the recent increase of policy interest rates may continue to deter investors towards safer fixed-income returns instead of the riskier equity market.

Performance The Company's current market share stood at ~3.4% during 1HFY23 (1HFY22: ~2.9%). IISPL earned operating revenue of ~PKR 31mln during 1HFY23 (SPLY: ~PKR 63mln). The Company incurred a loss after tax of ~PKR 27mln (SPLY: Profit of ~PKR 22mln).

Strategy Going forward, IISPL plans to continue focusing on 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 with margin facilities to trade through leverage. IISPL does not allow clients the facility of leveraged trading apart from a selected few clients with whom they have long-term relationships, thus limiting their credit risk exposure.

Market Risk As at end-Dec'22, the Company had short-term investment portfolio of ~PKR 58mln (1HFY22: ~PKR 167mln), which comprised quoted securities. Proprietary listed securities as compared to Company's equity comprised ~27% at end-Dec'22 (1HFY22: ~57%). Trading in proprietary book creates conflict of interest, risk of front running, and inherently bears market risk.

Liquidity Risk At end-Dec'22, the current assets of ~PKR 320mln adequately covers the current liabilities of ~PKR 128mln.

Capitalization The Company has an adequate equity base of ~PKR 217mln at end-Dec'22, decreasing from ~PKR 244mln at end-June'22.

Ismail Iqbal Securities (Pvt.) Limited	Dec-22	Jun-22	Jun-21	Jun-20
	6M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	65	160	184	153
3 Other Earning Assets	56	54	100	43
4 Non-Earning Assets	232	344	396	521
5 Non-Performing Finances-net	-	-	-	-
Total Assets	353	558	680	717
6 Funding	2	76	75	430
7 Other Liabilities (Non-Interest Bearing)	134	239	283	9
Total Liabilities	136	315	358	440
Equity	217	244	322	278

B INCOME STATEMENT

1 Fee Based Income	31	93	160	65
2 Operating Expenses	(41)	(99)	(128)	(76)
3 Non Fee Based Income	(0)	(52)	43	40
Total Operating Income/(Loss)	(10)	(57)	75	29
4 Financial Charges	(11)	(13)	(19)	(27)
Pre-Tax Profit	(21)	(70)	56	2
5 Taxes	(5)	(9)	(11)	(2)
Profit After Tax	(26)	(79)	45	0

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	-68.5%	-75.3%	34.8%	3.2%
EBITDA/ Revenue	-32.7%	-56.9%	48.6%	48.8%
Profit / (Loss) Before Interest & Taxes / Total Assets	-2.9%	-10.2%	11.0%	4.1%

2 Financial Sustainability

Total Investments / Equity	29.8%	65.6%	57.2%	55.1%
NCB / Equity	0.0%	66.6%	98.1%	25.8%
LCB/ Total Equity	87.3%	148.0%	90.9%	14.7%
(Cash & Cash Equivalents + Government Securities) / Total Assets	70.0%	62.5%	66.0%	75.9%
Total Debt / Equity	1.0%	31.3%	23.1%	59.4%

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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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

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- (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)

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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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