



The Pakistan Credit Rating Agency Limited

## Rating Report

### Ismail Iqbal Securities (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Aug-2022	A-	A2	Stable	Maintain	-
29-Sep-2021	A-	A2	Stable	Maintain	-
29-Sep-2020	A-	A2	Stable	Upgrade	-
28-Aug-2020	BBB+	A2	Stable	Maintain	-
28-Aug-2019	BBB+	A2	-	Downgrade	-
27-Feb-2019	A-	A2	Stable	Maintain	-
29-Aug-2018	A-	A2	Stable	Upgrade	-
23-Jun-2017	BBB-	A3	Stable	Maintain	-
06-Oct-2016	BBB-	A3	Stable	Maintain	-

#### Rating Rationale and Key Rating Drivers

Ismail Iqbal Securities (Pvt.) Limited (“IISPL” or the “Company”) primarily provides the services of equity brokerage with a modest market share. Due to the heightened political uncertainty prevailing during 2HFY22, the average traded volumes for FY22 stood at ~6,055mln depicting a decline of ~45% when compared with FY21 (~10,946mln). Following the market trend, the trading volumes of IISPL also took a hit, consequently, the commission on equity brokerage fell to ~PKR 93mln for FY22 (FY21: PKR ~160mln). Although, the Company managed to sustain its market share. The Company is engaged in the underwriting business; however, the quantum of business is low in this segment due to muted market situation for a long time. The top-line continues to feature significant reliance on brokerage commissions, and accordingly, there remains room for improvement in the revenue diversification domain. The bottom-line resulted in a loss of ~PKR 70mln for FY22 mainly due to losses suffered on prop-book trading. The equity stood at ~PKR 252mln at end-Jun’22 reflecting a decline of ~22% when compared with FY21. The assigned ratings are supported by a low leveraged capital structure. At end-Jun’22, the proprietary book constituted ~60% of the Company’s equity to stand at ~PKR 153mln. This exposes the Company to market risk and other associated risks. However, the management has implemented adequate measures to cope with this risk. 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 which is a strengthening factor. The assigned ratings are reflective of the Company’s lean organizational structure where most of the heads directly report to the CEO. Seasoned top management, adequate risk management and compliance procedures provide support to the rating. The governance framework may be improved further by enhancing the board size with the inclusion of certified independent directors.

The management's ability to retain its market share and enhance the volumes and diversity of revenue to improve its competitive position in the brokerage industry remains crucial for the sustainability of the assigned ratings. Maintaining a strong financial profile and retention of key human resources remains important.

#### Disclosure

<b>Name of Rated Entity</b>	Ismail Iqbal Securities (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22),Methodology   Broker Entity Rating(Jun-22)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-22)
<b>Rating Analysts</b>	Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504



## Profile

**Background** Ismail Iqbal Securities (Pvt.) Limited (IISPL), 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. Ismail Iqbal Securities (Pvt.) Limited, was established in August 06, 2004. The Company acquired the corporate membership in the same year and operates through 2 branches, both in Karachi.

**Operations** The Company's brokerage services mainly comprise equity and fixed income. The Company deals in listed and unlisted debt and equity market, while providing margin trading services. Its core business revenue constitutes a significant part of its total revenues.

## 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%).

**Stability** The Company has long-standing loyal customer base of HNWI's which mitigates the risk of external shocks in the market.

**Business Acumen** IISPL's 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 net worth and may provide support in terms of further capital injection when needed.

## Governance

**Board Structure** The Company's board of directors comprises of two experienced individuals including the CEO - Mr. Ahfaz Mustafa. The other director, Mr. Muhammad Taufique is a non-executive director and provides governance oversight.

**Members' Profile** Mr. Ahfaz Mustafa received his Bachelors of Science (Hons.) degree with majors in Economics from University of Toronto and started off with risk management and has steadily worked his way to the top position in the company. Mr. Azhar Iqbal earned his Bachelors in Economics from the prestigious University of Pennsylvania, and then went on to do his masters from NYU. He remained associated with the financial markets as a research analyst in New York for three years before returning to Pakistan and joining the Ismail Iqbal Group.

**Board Effectiveness** The Company has established an Audit Committee at the board level, which may be further enhanced with the inclusion of independent oversight.

**Transparency** The Company has appointed M/s Baker Tilly Mehmood Idrees Qamar - Chartered Accountants as the external auditors who are ranked in the 'A' category of the State Bank's list of approved auditors. The auditor has expressed an unqualified opinion on the financial statements for FY21.

## Management

**Organizational Structure** There are seven departments with all HODs directly reporting to the CEO. IISL has created all requisite positions to ensure smooth operations.

**Management Team** Mr. Ahfaz Mustafa is the CEO of the company since 2008. He has nearly 12 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 CFA Charter Holder and has over 8 years of extensive experience in the areas of Equity Research, Economic Research, Financial Modeling & Valuations. Mr. Nazim Abdul Muttalib is Head of broking having more than fourteen years of experience in the Pakistan Financial Sector including Capital Market, Banking and Asset Management.

**Management Effectiveness** The front and back office software's are integrated, resulting in generation of real-time MIS reports for the management to make swift decisions in the dynamic environment.

**Control Environment** The control environment is considered weak as the Compliance and Finance functions are headed by the same person. The addition of an internal audit department and an independent Risk Management function is encouraged. The depth and scope of the Company's policies needs improvement.

## Business Risk

**Industry Dynamics** The operating environment of the brokerage industry is directly correlated to the political and economic environment both of which have become highly uncertain in the last couple of months. Since Oct'21, the market volumes are on a declining trend which has impacted the profitability of the equity brokers. The market however is trading at a historically lowest multiples and a hint of any good news on the macroeconomic front may provide a highly needed breather to the declining market trend. Going forward, the market is lucrative and a good volumetric activity is expected once the clarity emerges on the macroeconomic front.

**Relative Position** The Company primarily caters to HNWI's and has a sustained position in the market, with a market share averaging around 1.5% to 2%.

**Revenues** IISPL earned operating revenue of ~PKR 93mln during FY22 (FY21: ~PKR 160mln). The decrease in revenue is a result of a combination of historic market volume highs during FY21 and the subsequent significant market slowdown during FY22. The Company's revenue line is concentrated to equity brokerage. Diversification in revenue is encouraged.

**Cost Structure** The Company made a loss after tax of ~PKR 70mln in FY22 (FY21: Profit of ~PKR 45mln). The losses emanated from realized (~PKR 50mln) and unrealized (~PKR 31mln) losses from prop-book.

**Sustainability** The brokerage income is expected to improve with recent upward tick and better performance of stock market. The Company also has plans to tap into foreign clientele once market conditions improve, which bodes well for IISPL's future. The management's ability to strengthen its supplementary income and maintain its niche will be important.

## Financial Risk

**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** At end-Jun'22, the Company had prop-book investment of ~PKR 153mln (Jun'21: ~PKR 182mln), which comprised of quoted securities. Proprietary Book as compared to the Company's equity comprised ~61% at end-Jun'22 (Jun'21: ~56%).

**Liquidity Risk** At end-Jun'22, the current assets of ~PKR 518mln adequately covers the current liabilities of ~PKR 303mln. The Company also has ~PKR 475mln as running finance facilities available from banks to cover any exposure or cashflow requirements, of which ~PKR 74mln was utilized at end-Jun'22.

**Capital Structure** ISPL has a weak capitalization level with regulatory Net Capital Balance (NCB) standing at ~PKR 59mln at end-Jun'22, decreasing from ~PKR 149mln at end-Jun'21. The decrease in NCB is a result of ~PKR 125mln decrease in the current assets of the Company from end-Jun'21 to end-Jun'22, with the major decrease being in exposure margin deposit, cash and bank balances and trade receivables. While the equity stood at ~PKR 252mln at end-Jun'22, declining from PKR ~322mln at end-Jun'21.



Ismail Iqbal Securities (Pvt.) Limited  
Private Limited

PKR mln

Jun-22	Jun-21	Jun-20	Jun-19
12M	12M	12M	12M

#### A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	160	184	153	135
3 Other Earning Assets	55	100	43	30
4 Non-Earning Assets	345	396	521	356
5 Non-Performing Finances-net	-	-	-	-
<b>Total Assets</b>	<b>560</b>	<b>680</b>	<b>717</b>	<b>522</b>
6 Funding	76	75	165	144
7 Other Liabilities (Non-Interest Bearing)	232	283	275	101
<b>Total Liabilities</b>	<b>308</b>	<b>358</b>	<b>440</b>	<b>245</b>
<b>Equity</b>	<b>252</b>	<b>322</b>	<b>278</b>	<b>277</b>

#### B INCOME STATEMENT

1 Fee Based Income	93	160	65	49
2 Operating Expenses	(91)	(128)	(76)	(73)
3 Non Fee Based Income	(52)	43	40	(57)
<b>Total Operating Income/(Loss)</b>	<b>(50)</b>	<b>75</b>	<b>29</b>	<b>(81)</b>
4 Financial Charges	(13)	(19)	(27)	(15)
<b>Pre-Tax Profit</b>	<b>(63)</b>	<b>56</b>	<b>2</b>	<b>(96)</b>
5 Taxes	(8)	(11)	(2)	(7)
<b>Profit After Tax</b>	<b>(70)</b>	<b>45</b>	<b>0</b>	<b>(103)</b>

#### C RATIO ANALYSIS

##### 1 Cost Structure

Financial Charges / Total Operating Income/(Loss)

Return on Equity (ROE)

-26.8%	25.3%	92.8%	-18.8%
-11.1%	17.2%	0.3%	6.3%

##### 2 Capital Adequacy

Equity / Total Assets (D+E+F)

Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)

45.0%	47.4%	38.7%	53.1%
-472.7%	110.9%	215.8%	-600.7%

##### 3 Liquidity

Liquid Assets / Total Assets (D+E+F)

Liquid Assets / Trade Related Liabilities

71.8%	72.9%	82.4%	75.7%
202.8%	233.8%	222.6%	434.9%

##### 4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers

Equity Instruments / Investments

17.3%	26.0%	9.6%	15.2%
100.0%	100.0%	100.0%	100.0%

**Credit Rating**

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*\*The correlation shown is indicative and, in certain cases, may not hold.*

**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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

**Note.** This scale is applicable to the following methodology(s):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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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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(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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(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)

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(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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