



The Pakistan Credit Rating Agency Limited

Rating Report

Intermarket Securities Limited (Formerly: EFG Hermes Pakistan Limited) | BMR

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Rating Rationale and Key Rating Drivers

Intermarket Securities Limited ('ISL' or the 'Company') has an established position in the equity brokerage industry. ISL merged with and into EFG Hermes Pakistan Limited (EFGH) during CY24, further solidifying its market presence. CY24 has been a great boon for the brokerage industry, specially after the lackluster market volumes observed during CY22 and CY23. Investor confidence rebounded during the year, with the declining interest rates providing the incentive to investors to shift from fixed income to equity securities. Market volumes surged and as a result, the KSE-100 Index continuously breached its historic high levels during the year. The momentum is expected to continue on during 1QCY25; however, improving macro-economic indicators and political stability shall remain key. Through a combination of consolidated revenues and the surge in market volumes, ISL's topline grew by an impressive ~90% during 9MCY24. Resultantly, the Company's bottom-line rose immensely to ~PKR 278mln during 9MCY24 (SPLY: ~PKR 17mln). The Company has a strong equity base to resist market shocks, standing at ~PKR 1,775mln at end-Sep'24. ISL has a stable ownership structure, with majority ownership vesting with the sponsoring family. The business acumen of the primary sponsor, Ms. Erum Balwani, is well acknowledged. The Company has a strong seven-member board, with board committees chaired by independent directors. ISL has a functional organizational structure, supported by an experienced management team. Client services are sound, with economic and equities research present. The internal control framework is supported by separate internal audit, compliance, and risk management functions. ISL plans to enhance its market share by consolidating foreign clientele of EFGH, while focusing on improving its retail customer base.
Going forward, maintenance and improvement of product and customer diversification is vital. Moreover, growth of topline and sustainability of profitability margins remain key. Meanwhile, upholding internal controls, retention of key management, and diligently monitoring of risks are important.

Disclosure

Disclosure table with rows: Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, Rating Analysts.



### Ownership

**Ownership Structure** Ms. Erum Balwani is the principal shareholder of Intermarket Securities Limited, holding a 43% stake in the company, while Mr. Muhammad Uraib Bilwani owns a 41% share. The remaining ~16% is held by various individuals and institutions.

**Stability** Ownership is considered stable through majority ownership vesting with the sponsoring family.

**Business Acumen** The Company sponsors possesses the relevant educational background and extensive industry specific working knowledge. The sponsors have multiple successful businesses within and outside Pakistan, with a diversified experience in the financial sector, primarily in the capital market.

**Financial Strength** The sponsors have adequate financial strength and may inject further equity with increasing quantum of operations.

### Governance

**Board Structure** The Company's Board of Directors (BoD) comprises seven members, which include two independent, four executive directors and one non-executive director. Ms. Erum Balwani, a non-executive director, currently chairs the board.

**Members' Profile** Mrs. Bilwani is the sponsor and chairwoman of Intermarket Securities. She is a successful Pakistani businesswoman and investor with diversified experience in the financial sector. She is also a philanthropist and has worked with various NGOs in Pakistan. Mr. Shehzan Hussain Moosani, an independent director, has over 20 years experience in Pakistan's capital markets and has had a distinguished career representing some of the country's leading financial institutions. Mr. Muhammad Ashfaq, an independent director, has over 25 years of audit and advisory experience primarily in Financial Services. He is a professionally established Chartered Accountant with varied certifications including ACMA (UK), CGMA (UK) and CPA (Australia).

**Board Effectiveness** To ensure an effective control environment and compliance with reporting standards, the Company has constituted two board committees: i) Audit Committee, and ii) Human Resource and Remuneration Committee. Both the Audit and Human Resource committees are chaired by independent directors, enhancing governance oversight.

**Financial Transparency** Rahman Sarfraz Rahim Iqbal & Company Chartered Accountants are the external auditors of the Company. The firm is QCR rated by ICAP and is in the B Category of SBP's panel of auditors.

### Management

**Management Team** ISL has a qualified and experienced management team to run operations. The Company is headed by its CEO, Mr. Wajid Hussain, who has over 25 years of experience in Pakistan's capital market and has held key management positions throughout his career. Before joining Intermarket Securities Ltd in 2018, he was the CEO and Board member at Global Securities for almost 15 years. Mr. Syed Raza Jafri, Head of Equity, possesses more than 15 years of experience in sell-side equity research and sales. Mr. Zulfiqar Ali, the CFO, has over 20 years of experience in the banking and diversified financial sectors.

**Organizational Structure** IMS has a functional organizational structure that clearly highlights each individual's roles and responsibilities. The functions of the Company are mainly divided into (i) Finance, (ii) Information Technology, (iii) Equity (Sales), (iv) Admin & HR, (v) Research, (vi) Regional Branch, (vii) Risk Management and Customer Services, (viii) Corporate Affairs and Compliance, (ix) Equity, (x) Online Sales and (xi) International Sales.

**Client Servicing** The Company has provided its customers with various channels, including a mobile app and online trading platform to facilitate the execution and monitoring of their transactions. The research department shares the relevant research with the clients on a regular basis.

**Complaint Management** IMS has provided a guide for lodging complaints on its website and investors can lodge complaints through phone calls, SMS, Email, Website and by physical appearance. The customer service department looks after the complaint's resolution.

**Extent Of Automation / Integration** IMS's trading system has a centralized real-time risk management system and allows for online trading. The core software functions include Equity Settlement, MM Settlement, Payroll, Accounting and Risk Management.

**Continuity Of Operations** The Company has a fully operational business continuity & disaster recovery location, which provides a robust structure for resuming all critical operations in the shortest possible time. The data pertaining to back-office records and applications are being backed daily and secured in two separate locations.

**Risk Management Framework** IMS has established Risk Management procedures for reviewing risk appetite, policies and controls put in place. IMS has an internal audit function which is instrumental in mitigating risk. IMS has a separate Risk Manager with well-developed policies in place.

**Regulatory Compliance** IMS's compliance department ensures that it is compliant with all the PSX requirements and SECP (Anti Money Laundering and Countering Financing of Terrorism) Regulations that pertain to its particular industry, as well as professional standards, accepted business practices, and internal standards.

### Business Sustainability

**Business Risk** Low market P/E multiples, declining interest rates, and improving macro-economic indicators renewed investor confidence during CY24, resulting in high volumes for the brokerage industry. The trend is expected to continue during 1QCY25, with significant rate cuts providing the impetus to investors to shift their investments from fixed income to the equity market. The market P/E ratio is still considered low with ample room to improve, indicating that the brokerage industry shall continue to enjoy high volumes during CY25.

**Business Profile** IMS primarily specializes in equity brokerage services, catering to three key client segments: i) Foreign investors, ii) Institutional clients, and iii) Retail/High Net Worth Individuals (HNWIs). Additionally, the Company is engaged in advisory and underwriting services.

**Revenue And Profitability Analysis** IMS's operating revenue is mainly concentrated on equity brokerage. During 9MCY24, the brokerage commission stood at ~PKR 528mln while during 9MCY23 it stood at ~PKR 227mln. The Company earned a net profit of ~PKR 277mln during 9MCY24 as compared to ~PKR 16mln during 9MCY23. The surge in topline is attributed to the market surge during the period.

### Financial Sustainability

**Credit Risk** The Company controls its credit risk through a variety of reporting and control procedures, including establishing credit limits based on a review of the counterparties' financial conditions. The Company monitors collateral levels on a regular basis and requests changes in collateral levels as appropriate if considered necessary.

**Market Risk** IMS manages its proprietary investment book effectively to reduce exposure to risk. At end-Sep'24, proprietary investments stood at ~PKR 434mln, constituting ~24.5% of equity.

**Liquidity Profile** The current assets of IMS stood at ~PKR 3,065mln at end-Sep'24 as compared to current liabilities of ~PKR 1,568mln.

**Financial Risk** The Company's short term borrowings stood at ~PKR 431mln and long term borrowings stood at ~PKR 325mln. At the end of 9MCY24, the equity stood at ~PKR 1,775mln, resulting in a leveraging ratio of ~30%.



PKR mln

Intermarket Securities Limited Public Listed Company	Sep-24	Dec-23	Dec-22	Dec-21
	9M	12M	12M	12M
<b>A BALANCE SHEET</b>				
1 Finances	388	135	114	80
2 Investments	495	304	840	841
3 Other Earning Assets	0	11	11	11
4 Non-Earning Assets	2,827	294	223	385
5 Non-Performing Finances-net	0	0	0	0
<b>Total Assets</b>	<b>3,709</b>	<b>745</b>	<b>1,189</b>	<b>1,317</b>
6 Funding	797	434	827	825
7 Other Liabilities (Non-Interest Bearing)	1,137	188	191	329
<b>Total Liabilities</b>	<b>1,934</b>	<b>622</b>	<b>1,019</b>	<b>1,154</b>
<b>Equity</b>	<b>1,775</b>	<b>123</b>	<b>170</b>	<b>163</b>
<b>B INCOME STATEMENT</b>				
1 Fee Based Income	523	31	116	256
2 Operating Expenses	-383	-56	-206	-196
3 Non Fee Based Income	269	36	115	30
<b>Total Operating Income/(Loss)</b>	<b>409</b>	<b>10</b>	<b>25</b>	<b>90</b>
4 Financial Charges	-104	-33	-112	-44
<b>Pre-Tax Profit</b>	<b>305</b>	<b>-23</b>	<b>-86</b>	<b>47</b>
5 Taxes	-27	-3	-15	-18
<b>Profit After Tax</b>	<b>278</b>	<b>-26</b>	<b>-102</b>	<b>29</b>
<b>C RATIO ANALYSIS</b>				
<b>1 Cost Structure</b>				
Financial Charges / Total Operating Income/(Loss)	25%	325%	441%	48%
Return on Equity (ROE)	53%	-35%	-113%	24%
<b>2 Capital Adequacy</b>				
Equity / Total Assets (D+E+F)	48%	16%	14%	12%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	250%	-37%	10%	188%
<b>3 Liquidity</b>				
Liquid Assets / Total Assets (D+E+F)	59%	58%	79%	74%
Liquid Assets / Trade Related Liabilities	206%	244%	1028%	566%
<b>4 Credit &amp; Market Risk</b>				
Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	67%	12%	13%	6%
Equity Instruments / Investments	12%	7%	2%	0%

### Broker Management Rating

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

<p><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'.</p>	<p><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.</p>	<p><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.</p>	<p><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.</p>	<p><b>Harmonization</b> 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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(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)

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- (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)

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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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