



The Pakistan Credit Rating Agency Limited

Rating Report

IGI Finex Securities Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
23-Aug-2024	BFR 2+	Stable	Maintain	-
25-Aug-2023	BFR 2+	Stable	Maintain	-
26-Aug-2022	BFR 2+	Stable	Maintain	-
27-Aug-2021	BFR 2+	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	IGI Holdings Limited fully owns IGI Finex Securities Limited as its subsidiary. The assigned rating incorporates the business acumen and the financial strength of the sponsoring group.
Governance	The board of IGI comprises four directors including the CEO. Two non-executive directors are present along with three board committees for added oversight. Independent oversight may be added to enhance governance structure.
Management and Client Services	A qualified and experienced management team is present with a lean organizational structure. The Company provides sound client services including research and online trading facilities.
Internal Controls and Regulatory Compliance	A robust internal control framework is further boosted by an outsourced internal audit function. Separate departments exist for risk management and compliance functions. The Company has formulated all requisite policies and procedures for an effective control framework.
Business Sustainability	The Company's topline comprises brokerage income and financial income derived from savings deposits. During 2QCY24, IGI diversified its revenue streams by incorporating advisory income. IGI earned ~PKR 49mln during 1QCY24, as compared to ~PKR 21mln in SPLY. Due to interest income earned from saving deposits, IGI's profit surged to ~PKR 70mln during 1QCY24 compared to ~PKR 0.045mln during SPLY.
Financial Sustainability	The Company operates without a proprietary book, resulting in limited exposure to market risk. The ratings draw comfort from a low-leveraged capital structure. At end-Mar'24, the equity of IGI stood at ~PKR 696mln, while regulatory Liquid Capital Balance stood at ~PKR 512mln.

Key Rating Drivers

During 1QCY24, IGI's brokerage revenue inclined on account of the increase in market volumes. Moving forward, it is imperative for the Company to maintain diversity in its revenue streams to better be able to resist market shocks. The management's ability to retain its market share and boost trading volumes remain critical. Moreover, retention of key management and sustainability of profitability continue to remain a prominent factor for ratings.

Disclosure

Name of Rated Entity	IGI Finex Securities Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Assessment Framework Broker Fiduciary Rating(Jan-24)
Related Research	Sector Study Brokerage & Securities(Jan-24)
Rating Analysts	Hassan Ahmad Hassan.Ahmad@pacra.com +92-42-35869504

Profile

Background IGI Finex Securities Limited (IGI or the Company) is a licensed TRE certificate holder of Pakistan Stock Exchange and member of Pakistan Mercantile Exchange. Incorporated in 1994, IGI became a part of Packages group in 2007.

Operations Headquartered in Karachi, IGI Finex Securities Limited engages in equity, commodities, and money market brokerage, along with advisory and investing services. The company operates through six branches nationwide.

Ownership

Ownership Structure IGI and Packages Group are recognized as leading industrial players. They have demonstrated exceptional growth and performance in areas such as paper and paper board, packaging, financial institutions, education, and real estate.

Stability IGI Holdings, the parent company, has investments totaling PKR 16 billion in subsidiaries and equity instruments as of end-Mar 2024.

Business Acumen For more than 50 years, IGI and Packages group have maintained a sizeable presence in the industrial and services sectors. They have earned recognition as two of the top industrial players in fields like paper and technology, packaging, paperboard, financial services, real estate, and public education.

Financial Strength The major shareholdings of the sponsors are concentrated in two main companies, IGI Holdings and Packages Limited.

Governance

Board Structure The Company's Board of Directors (BOD) comprised of four members, including the CEO and Chairman. Among them, two directors are executives and two directors are non-executives.

Members' Profile The board possesses the necessary skills and a strong members profile. The board members possess a diversified background of the finance and capital market while also having an experience in the corporate sector.

Board Effectiveness To ensure the best corporate governance practices, the company has formulated three board committees: Audit Committee, HR & remuneration committee and IT Steering committee.

Financial IGI has outsourced its internal audit function to EY Ford Rhodes Chartered Accountants and appointed A.F. Ferguson & CO. Chartered Accountants as the external auditor. The external auditors of the company are classified in the 'A' category of State Bank of Pakistan panel of Auditors.

Management And Client Services

Organizational Structure The company has a well-defined organizational structure with various departments headed by experienced individuals who report directly to the CEO.

Management Team The management team, led by CEO Mr. Syed Raza Hussain Rizvi, boasts over eighteen years of diverse experience in management, corporate strategy, Business Development, Mergers & Acquisitions, Capital Markets, Financial/Treasury Management, Corporate Governance, and Best practices Implementation.

Client Servicing Client servicing is a priority. The company has streamlined digital account opening forms in partnership with PSX and offers various services. Robust reporting mechanisms and digital platforms keep clients connected with trading.

Complaint Management A complaint management department addresses and resolves customer complaints. The Compliance Department oversees this department, maintaining records of all complaints. Periodic reports are submitted to SECP.

Extent Of Automation / Integration The company has invested in cutting-edge technology, including a state-of-the-art trading platform approved by SECP. This platform facilitates seamless and secure trading.

Continuity Of Operations A comprehensive disaster recovery plan ensures business continuity with various backup strategies.

Internal Controls And Regulatory Compliance

Risk Management Framework IGI Finex upholds a structured risk management framework to provide trading services. The company's board is responsible for formulating and monitoring risk management policies. Operational Risks are identified and monitored through a code of conduct and trading hall SOPs.

Regulatory Compliance Regulatory Compliance is diligently maintained by IGI's Compliance Department. The company ensures adherence to PSX requirements, SECP regulations regarding Anti Money Laundering and Countering Financing of Terrorism, professional standards, accepted business practices and internal standards.

Business Sustainability

Operating Environment Since Oct'23, the KSE-100 Index has experienced a surge in investor interest, with the index breaching historic high levels continuously and breaching the 75k mark for the first-time during May'24. The market P/E ratio is still considerably low and the index is expected to grow further. Of particular note is the decision of the country's policy rate, and the expected rate cut at the start of FY25 shall give rise to fresh buying as investors shift the focus from fixed-income to the equity market. While FY24 shall have good results for the brokerage industry, political and economic stability are key factors to uphold investor interest during FY25.

Performance IGI Finex's operating revenue is mainly concentrated on equity brokerage, commodity brokerage, and financial income on saving deposits. During 2QCY24, the Company enhanced its topline diversity through the addition of advisory income. In 1QCY24, equity brokerage revenue increased to PKR ~49million compared to PKR ~21million in SPLY and in CY23, the equity brokerage revenue stood at PKR~159mln as compare to PKR~121mln SPLY. Whereas, during CY23, the company reported a net profit of PKR 306million (SPLY PKR 9million) and in 1QCY24, the net profit stood at PKR~70mln as compare to PKR 0.045mln SPLY. Net profitability increased due to interest income earned through saving deposits and high securities market exposure.

Strategy The company aims to promote retail investment through digital initiatives and easier access to investment products.

Financial Sustainability

Credit Risk Rigorous KYC AML procedures including Customer Due Diligence (CDD) and Enhanced Due Diligence are employed to assess client creditworthiness.

Market Risk Market risk is mitigated by not operating a proprietary book and the company investments are mainly in long term PSX shares with a valuation of PKR 21mln end-Mar 24.

Liquidity Risk IGI Finex has good liquidity profile. The company reported current assets of PKR 2761mln as at end-Mar 24 as compared to the current liabilities of PKR 2212mln.

Capitalization As at end Mar-24, the Liquid Capital Balance of the company stood at PKR 512mln. The company has an equity base of PKR 696mln as at end Mar-24 .



THE PAKISTAN CREDIT RATING AGENCY

IGI Finex Securities Ltd.
PUBLIC UNLISTED LIMITED
FINANCIAL SUMMARY

FS PRINT MODE DISABLED

Mar-24 CY24 3M Management	Dec-23 CY23 12M Audited	Dec-22 CY22 12M Audited	Dec-21 CY21 12M Audited
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BALANCE SHEET

	Mar-24 CY24 3M Management	Dec-23 CY23 12M Audited	Dec-22 CY22 12M Audited	Dec-21 CY21 12M Audited
1 FINANCES	-	-	-	-
2 INVESTMENTS	115.39	94.53	12.95	22.04
3 OTHER EARNING ASSETS	275.64	155.28	104.33	57.42
4 NON-EARNING ASSETS	2,525.18	3,453.27	754.19	1,237.30
5 NON-PERFORMING FINANCES-net	(413.60)	(82.39)	21.71	3.50
TOTAL ASSETS	2,916.21	3,703.08	871.47	1,316.76
6 FUNDING	8.61	19.23	10.96	2.61
7 OTHER LIABILITIES (NON-INTEREST BEARING)	2,210.73	3,055.33	533.17	986.38
TOTAL LIABILITIES	2,219.34	3,074.56	544.14	989.00
TOTAL EQUITY	696.88	628.52	327.33	327.76

INCOME STATEMENT

	Mar-24 CY24 3M Management	Dec-23 CY23 12M Audited	Dec-22 CY22 12M Audited	Dec-21 CY21 12M Audited
INCOME				
1 FEE BASED INCOME	49.05	159.45	128.47	291.93
2 OPERATING EXPENSES	(55.85)	(220.17)	(286.42)	(224.30)
3 NON-FEE BASED INCOME	106.53	461.28	58.72	34.46
TOTAL OPERATING INCOME (LOSS)	99.73	400.56	(99.23)	102.09
4 FINANCIAL CHARGES	(0.65)	(2.67)	(1.81)	(0.71)
PRE-TAX PROFIT	99.08	400.80	(93.29)	101.38
5 TAXES	(28.73)	(93.92)	(0.72)	(32.46)
PROFIT AFTER TAX	70.34	306.88	(94.01)	68.91

RATIOS

	Mar-24 CY24 3M Management	Dec-23 CY23 12M Audited	Dec-22 CY22 12M Audited	Dec-21 CY21 12M Audited
BUSINESS SUSTAINABILITY				
1 PRE-TAX MARGIN	2.02	2.51	(0.73)	0.35
2 EBITDA MARGIN	2.08	2.58	(0.71)	0.35
3 EBIT RETURN ON ASSETS	0.14	0.18	(0.08)	0.08

FINANCIAL SUSTAINABILITY

	Mar-24 CY24 3M Management	Dec-23 CY23 12M Audited	Dec-22 CY22 12M Audited	Dec-21 CY21 12M Audited
1 TOTAL INVESTMENTS / EQUITY	0.17	0.15	0.04	0.07
2 LIQUID CAPITAL BALANCE (LCB) / EQUITY	0.74	0.60	0.51	0.47
3 (CASH, CASH EQUIVALENTS & GOVERNMENT SECURITIES) / TOTAL ASSETS	0.15	0.07	0.14	0.07
4 TOTAL DEBT / TOTAL ASSETS	0.00	0.00	0.01	0.00

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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(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).
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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)

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- (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 | 17-(a)
- (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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