



The Pakistan Credit Rating Agency Limited

Rating Report

Khadim Ali Shah Bukhari Securities 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
26-May-2021	BFR 3+	Stable	Initial	-

Rating Rationale

Factor	Description	Comment
Ownership	Good	Major shareholding of the Company lies with Oxford Frontier Capital Limited i.e. ~44%. The sponsors' profile of the Company is considered good.
Governance	Good	On governance front, the Company is in process of improving its Board Structure in compliance with CCG.
Management and Client Services	Strong	Management team is well experienced while integration of technology into systems results in high efficiency and customer satisfaction.
Internal Controls and Regulatory Compliance	Good	Risk management framework and systems are adequate and company remains compliant with all applicable regulations.
Business Sustainability	Good	The Company registered a considerable growth amidst augmentation in client base but rating is constrained by the Company's significant dependence on equity brokerage income.
Financial Sustainability	Good	The Company is engaged in proprietary trading, albeit the quantum of proprietary investment is very low but exposes the Company to market risk.

Key Rating Drivers

The broker fiduciary rating of Khadim Ali Shah Bukhari Securities Limited's ("The Company") (Formerly: Khadim Ali Shah Bukhari Securities Private Limited) signifies the Company's assurance towards satisfactory custodianship of client's assets indicated by comprehensive Client Asset Segregation policy, Trading room policy and Market abuse policy. The Company occupies emerging position in the brokerage industry and is penetrating through online trading and mobile application. The Company has outsourced its internal audit function to AFRAS & Company, a practicing firm of consultants. Zero leveraged capital structure, improved liquidity indicators and recovery in efficiency ratios bodes well for the Company. The ratings are dependent on the management's ability to strengthen revenue base by augmenting consultancy and advisory services. Retaining market share and sustaining profitability from core operations remain critical. Meanwhile, upholding strong internal controls and diligent monitoring of risks is important.

Disclosure

Name of Rated Entity	Khadim Ali Shah Bukhari Securities Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology BFR (Jan-21)
Related Research	Sector Study Brokerage & Securities(Jan-21)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504

Profile

Description: Good

Background: In 2013 Mr. Nasir Ali Shah Bukhari, s/o of Mr. Khadim Ali Shah Bukhari, formed a private limited company in the name of Khadim Ali Shah Bukhari (Pvt.) Limited and transferred his shareholding to his son and daughter Mr. Mahmood Ali Shah Bukhari and Ms. Mubashira Bukhari Khawaja in 2019. The Company has recently converted its status from “Private limited company” to “Public unlisted company”

Operations: The Company is primarily engaged in brokerage business and generate revenue from brokerage Income. The Company also provides advisory services, research services to foreign companies and is also involved in Margin Financing Services.

Ownership

Description: Good

Ownership Structure: Currently, Mr. Mahmood Ali Shah Bukhari and Ms. Mubashira Bukhari holds ~21% and ~29% stake in the Company while remaining stake ~44% lies with Oxford Frontier Limited holding..

Stability: The Company does not have formulated the formal succession plan.

Business Acumen: Oxford Frontier Limited is the major shareholder of the Company whose majority shareholding lies with Mr. Ali Farid Khawaja. Mr. Ali is a seasoned professional with more than 15 years’ experience in equity research and investments. Mr. Mahmood Ali Shah Bukhari is a well experienced business man and has a BSc in Liberal Studies from University of Waterloo-Canada. Ms. Mubashira is CFA Charterholder, done MSc in Wealth Management from Singapore Management University and MSc in Economics from LUMS. She possesses more than 11 years of experience in portfolio management, fundamental analysis and stock picking in the GEM markets excluding Asia..

Financial Strength: The sponsors have sizeable net worth and are injecting capital in the Company with increasing quantum of operations. This also shows the sponsors commitment in case financial need arises.

Governance

Description: Good

Board Structure: The Company has appointed two directors on board according to the requirements of Companies Act 2017 and in process of improving the board structure further, in compliant with CCG.

Members’ Profile: Both of the directors are seasoned professionals and possess manifold experiences in the relevant fields. Board’s Chairman, Mr. Ali Farid Khawaja is also the Executive Director of the Company. Previously he was the Partner / Equity Analyst in Autonomous research LLP, London, Group CFO and Director in Safe charge group PLC and VP, Equity research, Capital market Berenberg Bank London. Mr. Mahmood Ali Shah Bukhari is executive director of KASB Securities (Pvt.) Ltd. In addition to this Mahmood Ali Shah Bukhari is the Chairman of the Board at Agro Products and Services. He is also the Co-Founder of Carnama Pvt Limited. He has been serving on the Board of Directors of Sialkot International Airport (SIAL) since 2012.

Board Effectiveness: During FY20 four board meetings were held and the participation of all the members was noticeable.

Transparency: The Company has appointed ‘A’ category auditors as External auditor of the Company and outsourced the internal audit function of the Company.

Management and Client Services

Description: Good

Organizational Structure: The Company has lean organizational structure and is in emerging phase. All departments are directly reportable to CEO. Currently, the Company operates through three branches having presence in Lahore, Karachi and Islamabad.

Management Team: The Company has a team of seasoned professionals. Mr. A.H. Soomro is MD-Sales of the Company. He has previously worked as Senior Advisor to Swedish Frontier Markets Asset Manager - Tundra Fonder AB. Ms. Madiha Alam is Head of Sales and she has more than 15 years of experience in Asian Equity Sales at Macquarie, Daiwa Securities and Deutsche Bank in London. Graduate of University College of London (UCL). Ms. Aimun Baloch is the MD-Ktrade and she is a marketing professional with more than six years of experience in aspects of both marketing and sales. Mr. Muzaffar Iqbal is CFO of the Company and possess more than 13 years of experience in brokerage and financial industry.

Client Servicing: The Company has complete integration with PSX’s digital account opening forms. Similarly, various channels, including a mobile app, are available to customers to execute and monitor their transactions.

Complaint Management: A complaint box has been placed in the office premise, with bold writing "Complaint Box". Complain can also reach company through email and by post. A designated officer has been assigned the responsibility of handling and rectification of complains to Compliance Officer.

Extent of Automation / Integration: Two database platforms are installed with full integration between back and front office. The system has the ability to generate timely reports. The system incorporates primary and secondary level protection. The Company is in usual practice of daily and weekly backups.

Continuity of Operations: The Company has installed disaster recovery system offered by the PSX. The Company will access CDS system and NCHS through Global Terminal Facility provided by the Central Depository Company of Pakistan and NCCPL respectively at its office in case of disaster. Testing of Contingency Plan is done by IT staff bimonthly.

Internal Controls and Regulatory Compliance

Description: Good

Risk Management Framework: Company's risk management framework revolves around the risk management committee but the members of committee are also the same members of BoD of the Company and both are executive directors which creates conflict of interest and impairs independence.

Regulatory Compliance: Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in-line with the applicable policies and procedures. Research analyst policy has also been formulated according to which the research analyst does not provide any confidential part of research report outside the Company. Further, employees are not allowed to enter in trading rooms during trading hours as defined by PSX.

Business Sustainability

Description: Strong

Operating Environment: FY21 started with marginal gains, boosted Investors' confidence and improved external front on the back of well-managed fiscal and monetary actions by regulatory authorities including ease of doing business and relief policies. The benchmark, KSE-100 index witnessed an upwards trajectory. The index started from 34,422 points and touched the highest point of 46,934 on February 3, 2021 and currently clocked in at 44,901 points posting a positive return of 30%. The traded volumes during 9MFY21 remained elevated over the period at an average of ~269mln shares (SPLY: ~134mln. Shares), depicting increased participation in the equity market led by country's economic rebound and the global COVID-19 vaccine rollout. Foreigners continued to be net sellers and offloaded ~USD 269mln worth of stocks during FY21 period. Going forward, after the global sell off in equities due to the pandemic, it is expected that the foreigners will rebuild their long positions in the months ahead.

Performance: Topline of the Company registered a considerable growth amidst augmentation in client base, similarly admin and operating expenses witnessed a steep spike because of increase in staff hiring due to elevated quantum of business operations. The Company's operating revenue mainly concentrated to equity brokerage. Current market share of the Company stood at ~1.5%. During 1HFY21 the equity brokerage revenue increased by 171% to PKR 46mln (1HFY20 ~PKR 17mln). The Company reported net profit of PKR ~0.6mln in 1HFY21 compared to a profit of ~PKR 4mln in 1HFY20. Operating expenses also followed the upsurge and increased by 104% to ~PKR 52mln in 1HFY21 (1HFY20: ~PKR 26mln), mainly attributable to expansion in employees amidst increasing quantum of operations.

Strategy: Khadim Ali Shah Bukhari Securities Ltd. have signed a Memorandum of Understanding (MoU) with a renowned microfinance institute (MFI) to promote retail investment by easing access to investment products and stock market trading. MFI will also work towards integrating the Company's investment application, KTrade.

Financial Sustainability

Description: Good

Credit Risk: For the assessment of client's credit worthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. The Company has also put in place different risk mitigation measures to determine the scope of the identification and verification requirements and ongoing monitoring based on the risks posed by particular customers by setting transaction limits for higher-risk Customers.

Market Risk: The Company has maintained proprietary portfolio but the quantum of short term investment is very minimal i.e. less than 5% of the net equity. The Company has formalized an investment policy statement whereby limits have been defined to mitigate the risks, the compliance department will monitor the limits consistently and any breaches will be reported to the senior management.

Liquidity Risk: The liquidity profile of the Company is adequate. At the end of 1HFY21, the liquid assets were 17% of the total asset book (FY20: ~70%) and 1.7x of trade related liabilities (FY20: ~1.3%).

Capitalization: At end 1HFY20, the Net Capital Balance (NCB) of the Company stood at ~PKR 183mln, which allows the Company to take exposure up to 25x of its NCB. The Company has an equity base of ~PKR 264mln.



PKR mln

Khadim Ali Shah Bukhari Securities Limited

Dec-20

Jun-20

Jun-19

Jun-18

6M

12M

12M

12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	32	152	100	23
3 Other Earning Assets	111	66	30	1
4 Non-Earning Assets	46	360	123	51
5 Non-Performing Finances-net	-	-	-	-
Total Assets	189	579	252	75
6 Funding	19	313	74	17
7 Other Liabilities (Non-Interest Bearing)	105	3	4	-
Total Liabilities	124	316	78	17
Equity	264	263	174	58

B INCOME STATEMENT

1 Fee Based Income	46	45	12	0
2 Operating Expenses	(52)	(64)	(37)	(14)
3 Non Fee Based Income	7	28	18	1
Total Operating Income/(Loss)	1	9	(7)	(13)
4 Financial Charges	(0)	(0)	(0)	(0)
Pre-Tax Profit	1	9	(7)	(13)
5 Taxes	-	(3)	(4)	(0)
Profit After Tax	1	6	(11)	(13)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	14.0%	0.0%	-0.6%	0.0%
Return on Equity (ROE)	0.3%	4.9%	-24.2%	-177.0%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	139.3%	45.4%	69.1%	77.7%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current M	5067.6%	2049663.3%	55855.2%	643771.5%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	17.2%	69.9%	73.3%	50.4%
Liquid Assets / Trade Related Liabilities	168.7%	129.4%	250.3%	225.6%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers	67.1%	87.6%	93.8%	0.0%
Equity Instruments / Investments	61.5%	12.9%	19.2%	45.0%

Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management, 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 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 surveill 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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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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(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)

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(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)

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(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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