



The Pakistan Credit Rating Agency Limited

Rating Report

KTRADE Securities Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Nov-2022	A-	A2	Stable	Maintain	-
22-Nov-2021	A-	A2	Stable	Upgrade	-
26-May-2021	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

KTRADE Securities Limited (“KTRADE” or the “Company”) is an emerging brokerage house re-launched in 2018 with an aim to provide technology-driven and innovative products to the retail investors. KTRADE mainly provides the services of equity brokerage. The business model of equity brokers is inherently prone to market volatility. During FY22, rising inflation and interest rate environment impaired the investors sentiments, resulting in a decline of volumetric activity at PSX. Consequently, the traded volumes of KTRADE also suffered and fell by ~32% in FY22 on YoY basis. KTRADE earned commission on equity brokerage of ~PKR 119mln in FY22 as compared to ~PKR 158mln in FY21 reflecting a reduction of ~PKR 39mln or ~25%. However, to augment the revenue stream, KTRADE has setup the corporate finance department for advisory services for which the license was acquired in CY21. KTRADE has earned ~PKR 6mln in terms of advisory revenue in FY22. The services of margin trading/financing are also available; however, the quantum is minimal. With an aim to provide technology-driven and innovative products to the retail investors, KTRADE is aggressively investing in its technological platform and human capital for the purpose of enhancing the user base. This is reflected in the administrative and operating expense which has increased by ~PKR 107mln or 65% in FY22 on YoY basis. KTRADE has suffered a loss of ~PKR 116mln in FY22 primarily due to an upsurge in operating expenses. To support the expansion strategy, further equity has been injected during FY22. The Company’s equity stands at ~PKR 533mln at end-Jun’22. The ratings incorporate the sponsors’ business acumen, seasoned management team and a strong control environment. KTRADE has outsourced its internal audit function and has devised proficient risk assessment procedures. Recently, the Company has also strengthened its governance framework with the addition of two independent directors. The rating takes comfort from a low leveraged capital structure.

The ratings are dependent on the management’s ability to strengthen revenue base by augmenting consultancy and advisory services. Improvement in market share and sustaining profitability from core operations remain critical. Meanwhile, upholding strong internal controls, sound governance structure, retention of key management personnel and diligent monitoring of risks is important

Disclosure

Name of Rated Entity	KTRADE Securities Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Broker Entity Rating(Jun-22)
Related Research	Sector Study Brokerage & Securities(Jan-22)
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Profile

Background KTrade Securities Limited (“KTrade” or “The Company”) is a TREC Holder of the Pakistan Stock Exchange. It is regulated and authorized by the Securities and Exchange Commission of Pakistan (SECP) and the Pakistan Stock Exchange (PSX). Mr. Khadim Ali Shah Bukhari pioneered the capital markets business in Pakistan through the KASB group, established in 1952.

Operations The Company is primarily engaged in the provision of equity brokerage services with an aim to target the retail clientele by utilizing financial technology. The Company also provides the services of corporate finance, research, and margin trading/financing.

Ownership

Ownership Structure The majority shares of KTrade are owned by M/s Oxford Frontier Capital Limited at ~60% while Oxford Frontier Capital is primarily owned by the Chairman of KTrade - Mr. Ali Farid Khawaja. The remaining shares are owned by Ms. Mubashira Bukhari Khwaja ~20% and Mr. Mahmood Ali Shah Bukhari (the CEO) ~15%.

Stability Oxford Frontier Limited is the major shareholder of the Company whose majority shareholding lies with Mr. Ali Farid Khawaja. Oxford Frontier Capital Limited is providing equity support to KTrade to boost their growth.

Business Acumen Mr. Mahmood Ali Shah is a seasoned professional with years of 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.

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

Board Structure The Company has appointed five directors on the board including three independent directors. The Board is chaired by Mr. Muhammad Ali Farid Khwaja.

Members' Profile All 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 three board committees: i) Audit Committee, ii) Risk Management Committee, and iii) Human Resource and Remuneration Committee.

Transparency KTrade has recently appointed BDO Ebrahim Consulting and Co. Chartered Accountants as the external auditors which falls in the A category of the SBP's panel of auditors. The auditors have expressed an unqualified opinion on the financial statements of KTrade for FY22.

Management

Organizational Structure The Company has a lean organizational structure where all Heads of the departments are directly reportable to the CEO. KTrade currently operates through 6 branches, with 4 in Karachi, 1 in Multan and 1 in Lahore along with a facilitation center in Islamabad. The main departments of the Company include: (i) Research, (ii) Sales, (iii) Customer Support, (iv) Compliance, (v) Risk Management, (vi) HR, (vii) Finance, (viii) Corporate Finance, (ix) Product Development, and (x) Marketing.

Management Team The Company has a team of seasoned professionals. Mr. Saad Bin Ahmed is MD-Sales of the Company. He is a CA Finalist with years of relevant experience. Mr. Muzaffar Iqbal has over 10 years of relevant experience and is the current CFO of the Company. He is also a CA finalist and has CICA and CFRA certifications as well.

Management Effectiveness The Company has an integrated front and back office system which provides the Company with System generated – real-time based – MIS reports, adding more efficiency in decision making.

Control Environment The Company's risk management framework revolves around the risk management committee, and the recent addition of an independent director on the committee strengthens the control framework.

Business Risk

Industry Dynamics Pakistan's economy has been volatile so far during FY23, with the sustained high inflation and political instability getting further compounded by the devastating floods that have ravaged both the North and South of the country. The revival of the IMF program and receiving the tranche of \$1.16bln is a positive indication; however, the pressure on the domestic economy remains high due to implementation of further taxes and levies to continue to adhere to the IMF conditions. Going forward, the market may adopt a 'wait and see' approach for some time before volumes surge again as activity rebounds once the post-flood rebuilding starts.

Relative Position The Company is an emerging brokerage house with current market share at ~2% on value traded basis during FY22.

Revenues The Company's operating revenue declined by ~25% to stand at ~PKR 119mln during FY22 (FY21: ~PKR 158mln) whereas the market volumes declined by ~45% during FY22 when compared with FY21, which shows that the Company was able to perform better than market conditions.

Cost Structure The Company reported net loss of ~PKR 116mln in FY22 compared to a profit of ~PKR 5.4mln in SPLY. The loss is mainly attributable to expansion in human capital and marketing amidst increasing quantum of operations.

Sustainability The Company is growing at a rapid pace and is investing heavily for their promotional campaigns. The continued equity support by the parent company bodes well for the sustainability of the Company.

Financial Risk

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 does not maintain any proprietary portfolio; however, at end-Jun'22 short-term investments of ~PKR 25mln were made in listed equity securities. The Company has formalized an investment policy statement whereby limits have been defined to mitigate the risks, the compliance department monitors the limits consistently

Liquidity Risk The liquidity profile of the Company is adequate. At the end-Jun'22, the current assets stood at ~PKR 703mln as compared to current liabilities of ~PKR 267mln. The Company also has short-term investments of ~PKR 147mln in T-Bills

Capital Structure The Company has a low leveraged capital structure. The Company is engaged in margin financing but It remains nominal as compared to the total revenue. The Company is more focused towards retail clients a is rapidly penetrating in retail based clientele. During FY22, the parent company injected ~PKR 146mln into the Company, and at end-Jun'22 the equity of KTrade stood at ~PKR 533mln. KTrade also has access to a running finance facility of PKR 50mln to address any shortfalls in cash.



KTRADE Securities Limited
Unlisted Public Limited

PKR mln

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

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	216	123	145	90
3 Other Earning Assets	103	30	53	1
4 Non-Earning Assets	482	711	382	162
5 Non-Performing Finances-net	-	-	-	-
Total Assets	801	863	579	252
6 Funding	44	-	-	-
7 Other Liabilities (Non-Interest Bearing)	224	357	316	78
Total Liabilities	269	357	316	78
Equity	533	506	263	174

B INCOME STATEMENT

1 Fee Based Income	125	159	45	12
2 Operating Expenses	(272)	(165)	(64)	(37)
3 Non Fee Based Income	30	16	28	18
Total Operating Income/(Loss)	(117)	10	9	(7)
4 Financial Charges	(0)	(0)	(0)	(0)
Pre-Tax Profit	(117)	9	9	(7)
5 Taxes	0	(4)	(3)	(4)
Profit After Tax	(116)	5	6	(11)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)
Return on Equity (ROE)

-0.2%	1.7%	0.0%	-0.6%
-26.2%	1.4%	4.9%	-24.2%

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)

66.5%	58.6%	45.4%	69.1%
-74253.1%	-7321.1%	-2049739.8%	-55855.2%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)
Liquid Assets / Trade Related Liabilities

71.5%	61.9%	66.7%	66.2%
296.3%	205.6%	805.9%	226.0%

4 Credit & Market Risk

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

90.1%	94.3%	571.1%	93.8%
32.0%	43.7%	14.3%	22.7%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. 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	High credit quality. 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	Good credit quality. 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+	Moderate risk. 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	High credit risk. 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	Very high credit risk. 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>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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)

Independence & Conflict of interest

- (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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