



The Pakistan Credit Rating Agency Limited

## Rating Report

### KTRADE Securities Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Nov-2024	A-	A2	Stable	Maintain	-
22-Nov-2023	A-	A2	Stable	Maintain	-
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') has rapidly grown its market presence in the brokerage space. KTrade focuses primarily on equity brokerage while diversification is present in the form of corporate finance and money market operations. The market share of the Company has steadily grown due to KTrade's focus on technological platforms aimed at attracting new retail investors. The ratings take into account the business acumen of the primary sponsor - Oxford Frontier Capital, a UK-based Fintech-focused VC/PE. Oxford Frontier Capital is majorly owned by Mr. Ali Farid Khwaja, who is also the Chairman of KTrade. The primary sponsor's business renown and strategic vision has enhanced the footprint of the group to establish KTrade Saudia, resulting in increased foreign clientele for the Company. The governance structure is considered sound with the presence of independent directors and board committees well noted. The rating takes comfort from a well-defined organizational structure and experienced management team. Internal audit, compliance, and risk management functions are present for an efficient control environment. The Company's topline primarily relies on brokerage income, which saw a ~137% increase in FY24, reaching ~PKR 206mln, up from ~PKR 86mln in FY23. KTrade's recent focus on corporate finance has resulted in an impressive ~89% growth in revenue from advisory services. However, the Company's strategy of rapid expansion and the increased cost of doing business raised administrative expenses by ~48% in FY24 when compared to FY23, resulting in an operating loss of ~PKR 63mln in FY24 (FY23: ~PKR 187mln). On the other hand, other income surged by ~112% during FY24 on account of higher interest income earned on deposits. Resultantly, the Company reported a net profit of ~PKR 36mln, a notable turnaround from the ~PKR 135mln loss in FY23. The Company has a zero-leveraged capital structure with an adequate equity base of ~PKR 427mln at end-Jun'24.

Going forward, the materialization of planned business strategies to provide boost to the topline is critical to the ratings. Improvement in market share and sustaining profitability from core operations remain crucial. Meanwhile, upholding strong internal controls, sound governance structure, retention of key management personnel and diligent monitoring of risks is important.

#### Disclosure

<b>Name of Rated Entity</b>	KTRADE Securities Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Rating Modifiers(Apr-24),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology   Broker Entity Rating(Aug-24)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-24)
<b>Rating Analysts</b>	Hassaan Ahmad   Hassaan.Ahmad@pacra.com   +92-42-35869504



### Profile

**Background** KTrade Securities Limited (“KTrade” or “the Company”) is a TREC holder of the Pakistan Stock Exchange. The roots of the Company lie with KASB (Khadim Ali Shah Bukhari) Securities. Mr. Khadim Ali Shah Bukhari is considered amongst the pioneers of the brokerage industry in Pakistan, establishing KASB Securities as the market leader during the 1990s. The family of Mr. Khadim re-entered the brokerage industry through KTrade in 2013.

**Operations** The Company is primarily engaged in the provision of equity brokerage services with an aim to target retail clientele by utilizing financial technology. The Company also provides the services of corporate finance and research while it has established a money market desk and commodity trading as well. KTrade operates through its head office located in Karachi and has branches located in Karachi, Lahore, and Multan with a facilitation center present in Islamabad.

### Ownership

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

**Stability** The ownership is considered stable due to primary holdings being within the family. Mr. Ali Farid Khwaja is the husband of Ms. Mubashira Bukhari Khwaja while Mr. Mahmood Ali Shah Bukhari is the brother of Ms. Mubashira. Succession planning exists within the family to enhance ownership stability.

**Business Acumen** The primary sponsors have an established history and command presence in the brokerage space. Mr. Ali Farid has expanded the footprint of KTrade through establishing KTrade Saudia, showcasing his ability to penetrate into new markets.

**Financial Strength** The sponsors have sizeable net worth and are injecting capital into the Company with an increasing quantum of operations. Oxford Frontier has access to sufficient reserves and is currently in the process of expanding into the Middle East.

### Governance

**Board Structure** The board of directors is comprised of five members - three independent and two executive. KTrade Securities Limited has recently improved its governance and transparency with the addition of Mr. Faisal Aftab and Ms. Sadaf Rehman as 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. Mr. Ali Farid Khwaja has more than 15 years' experience in equity research and investments. He has been a top-ranked Technology Analyst in Europe at Berenberg and UBS. Mrs. Mariam Farid Khwaja is an Advocate of High Courts and is based in the Islamabad office. She holds an LLB(Hons) degree from the University of London. Mrs. Sadaf has nearly two decades of experience driving social change for Pakistani youth, working with leading organizations such as LUMS, Generation You Employed, Acumen, and The Citizens Foundation. Mr. Faisal Aftab is the Founder of Zayn VC, a leading VC in MENAP. Faisal has an MBA from Oxford University, joint Bachelor's and Master's degrees from Michigan State University USA. He has also been an investor in Hedge Funds, Venture Capital Funds and an active Angel Investor for over 15 years.

**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. Four board meetings and four committee meetings each were held during FY24. Independent representation in Board Committees enhances the governance framework. For additional oversight, KTrade also has an advisory board consisting of two Principal of Investments from Osiris Capital, Hong Kong.

**Transparency** KTrade has appointed BDO Ebrahim and Co. Chartered Accountants as the external auditors, which fall in the A category of SBP's panel of auditors. Quarterly financial statements along with latest pattern of shareholding, and monthly regulatory NCB and LCB statements, are all publicly available on the Company's website, showcasing KTrade's commitment towards transparency.

### Management

**Organizational Structure** The Company has a lean organizational structure where all heads of the departments are directly reportable to the CEO. 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 undergone significant changes in management, strengthening its leadership team with seasoned professionals. Mr. Mehmood Ali Shah Bukhari, the co-founder and CEO of KTrade, is a member of YPO Capital Pakistan and has served as their Chapter Chair and Regional Forum Chair. With 12 years in Pakistan's financial sector, Mr. Mahmood holds degrees from the University of Waterloo, IMD, and NDU. Mr. Naveed Wakil, Head of Broking, is a seasoned professional with over 20 years of experience in the capital market industry. Mr. Muzaffar Iqbal, the current CFO, contributes more than 10 years of relevant experience and is a CA finalist with CICA and CFRA certifications.

**Management Effectiveness** KTrade has multiple management committees such as the Risk Management Committee and the Management Committee, comprising of the CEO and all departmental heads. Eight meetings were held during FY24, signifying the management team's approach to stay abreast of the dynamic business environment and be able to take quick decisions as and when needed.

**Control Environment** The Company has separate Risk Management and Compliance departments present with dedicated heads for oversight. Control framework is further enhanced through an outsourced internal audit function.

### Business Risk

**Industry Dynamics** Low market P/E multiples, declining interest rates, and improving macro-economic indicators renewed investor confidence during FY24, resulting in high volumes for the brokerage industry. The trend has continued in FY25, 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 FY25.

**Relative Position** The Company's current market share in FY24 remained stable at 1.5% on account of retail-based as well as institutional clients of the Company. KTrade is regularly amongst the top 10 brokerage houses to open new accounts in the monthly brokerage rankings released by the PSX.

**Revenues** KTrade's topline primarily relies on brokerage income, which saw a ~137% increase in FY24, reaching ~PKR 206mln, up from ~PKR 86mln in FY23. The Company's recent focus on corporate finance has resulted in an impressive ~89% growth in revenue from advisory services, increasing to ~PKR 11mln in FY24 from ~PKR 6mln in FY23.

**Cost Structure** The Company's strategy of rapid expansion and the increased cost of doing business raised administrative expenses by ~48% to ~PKR 333mln in FY24 when compared to ~PKR 226mln in FY23. Salaries and wages comprise ~53% of the total administrative expenses, and have increased by ~43% during the year.

**Sustainability** Going forward, KTrade plans to enhance its footprint in the retail universe while also focusing on bringing foreign investment to Pakistan. Moreover, topline diversification is being augmented through corporate finance and the selling of research services to international clientele.

### Financial Risk

**Credit Risk** The Company has developed risk management policies and guidelines whereby clients are provided trading limits according to their net-worth and proper margins are collected and maintained from the clients. The management continuously monitors the credit exposure of the clients.

**Market Risk** The decision of proprietary investments lies with the BoD. The usual practice of the Company is to invest excess funds in banks or fixed-income instruments rated 'A', T.bills, or Mutual funds.

**Liquidity Risk** The liquidity profile of the Company is adequate. At end-Jun'24, the current assets stood at PKR 974mln as compared to current liabilities of -PKR 643mln. The Company also has short-term investments of PKR 13mln in listed securities and mutual fund.

**Capital Structure** The Company has a zero-leveraged capital structure. At end-Jun'24 the equity of KTrade Securities Limited stood at ~PKR 427mln.



**KTRADE Securities Limited**  
**Unlisted Public Limited**

**Jun-24**      **Jun-23**      **Jun-22**  
**12M**      **12M**      **12M**

**A BALANCE SHEET**

1 Finances	-	-	-
2 Investments	35	140	216
3 Other Earning Assets	332	152	103
4 Non-Earning Assets	705	407	482
5 Non-Performing Finances-net	-	-	-
<b>Total Assets</b>	<b>1,072</b>	<b>700</b>	<b>801</b>
6 Funding	-	-	44
7 Other Liabilities (Non-Interest Bearing)	645	309	224
<b>Total Liabilities</b>	<b>645</b>	<b>309</b>	<b>269</b>
<b>Equity</b>	<b>427</b>	<b>391</b>	<b>533</b>

**B INCOME STATEMENT**

1 Fee Based Income	206	87	129
2 Operating Expenses	(333)	(226)	(272)
3 Non Fee Based Income	179	6	26
<b>Total Operating Income/(Loss)</b>	<b>51</b>	<b>(133)</b>	<b>(117)</b>
4 Financial Charges	(1)	(1)	(0)
<b>Pre-Tax Profit</b>	<b>51</b>	<b>(134)</b>	<b>(117)</b>
5 Taxes	(14)	(1)	0
<b>Profit After Tax</b>	<b>37</b>	<b>(135)</b>	<b>(116)</b>

**C RATIO ANALYSIS**

**1 Cost Structure**

Financial Charges / Total Operating Income/(Loss)	1.3%	-0.7%	-0.2%
Return on Equity (ROE)	19.3%	-34.6%	-25.3%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	39.8%	55.8%	66.5%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long	-9179.2%	-19763.3%	-74253.1%

**3 Liquidity**

Liquid Assets / Total Assets (D+E+F)	53.9%	62.6%	71.5%
Liquid Assets / Trade Related Liabilities	173.5%	168.5%	296.3%

**4 Credit & Market Risk**

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to C	63.3%	110.9%	90.1%
Equity Instruments / Investments	99.0%	65.8%	32.0%

### 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
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ BB 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.
B+ 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.
CCC CC C	<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.
D	Obligations are currently in default.

Scale	Short-Term Rating
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.

### Rating Modifiers | Rating Actions

<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) 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.</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. Rating actions may include "maintain", "upgrade", or "downgrade".

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

a) Broker Entity Rating	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Company

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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 | 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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