



The Pakistan Credit Rating Agency Limited

Rating Report

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

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
20-Dec-2024	BFR 2+	Stable	Maintain	-
21-Dec-2023	BFR 2+	Stable	Maintain	-
23-Dec-2022	BFR 2+	Stable	Maintain	-
31-Mar-2022	BFR 2+	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	Following the merger, the ownership of ISL vests with Ms. Erum Balwani (~43%) and Mr. Muhammad Uraib Balwani (~41%), whereas ~15% is free float. The business acumen of the sponsoring family is considered strong.
Governance	The board structure has been strengthened through the addition of independent directors. ISL currently has a seven-member board, chaired by Ms. Erum Balwani. There are two independent, one non-executive, and four executive directors on the board.
Management and Client Services	A well-developed organizational structure is in place with a qualified and experienced management team to manage operations. The Company offers sound client services such as online trading and access to research reports.
Internal Controls and Regulatory Compliance	ISL has developed all requisite policies and has separate internal audit and compliance functions, strengthening the control framework.
Business Sustainability	The Company has diversified its revenue streams by incorporating corporate finance, MFS/MTS, and commodity brokerage. Moreover, following the merger, ISL has solidified its position amongst the leading brokerage houses in terms of client diversity.
Financial Sustainability	At end-Sep'24, ISL had an adequate leveraging of ~30%. The Company has a strong equity base of ~PKR 1,775mln at end-Sep'24.

Key Rating Drivers

Intermarket Securities Limited ('ISL' or the 'Company') successfully merged with EFG Hermes Pakistan Limited (EFGH) during CY24, enhancing its market presence. During 9MCY24, the Company demonstrated remarkable growth in its topline emanating from effectively incorporating the foreign client base of EFGH. Moving forward, it is imperative from a ratings perspective to maintain topline diversity, uphold controls, and diligently monitor risks.

Disclosure

Name of Rated Entity	Intermarket Securities Limited (Formerly: EFG Hermes Pakistan 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	Hassaan Ahmad Hassaan.Ahmad@pacra.com +92-42-35869504

Profile

Background Intermarket Securities Limited (formerly EFG Hermes Pakistan Limited) was incorporated on September 27, 1999, under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) as a Private Limited Company. In November 2006, it was converted into a Public Unquoted Company. Effective from March 20, 2008 the Company was listed on the Pakistan Stock Exchange Limited. Intermarket Securities Limited ('ISL' or the 'Company') acquired EFGH during CY24, with an effective merger date of 1st July, 2024.

Operations 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.

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 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 And Client Services

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.

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.

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.

Internal Controls And Regulatory Compliance

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

Operating Environment 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.

Performance 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.

Strategy The Company is focusing on enhancing its Retail Clientele by improving its technology integration as well as its social media presence, while the hiring of additional resources for technological advancement is also under consideration. Moreover, through the merger, ISL plans to establish itself as the leading brokerage house for foreign transactions.

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

Capitalization 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%.



THE PAKISTAN CREDIT RATING AGENCY

Intermarket Securities Limited
PUBLIC LISTED LIMITED
FINANCIAL SUMMARY

FS PRINT MODE DISABLED

Sep-24 CY24 9M Management	Dec-23 CY23 12M Audited	Dec-22 CY22 12M Audited	Dec-21 CY21 12M Audited
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BALANCE SHEET

	Sep-24 CY24 9M Management	Dec-23 CY23 12M Audited	Dec-22 CY22 12M Audited	Dec-21 CY21 12M Audited
1 FINANCES	387.59	134.62	113.99	79.91
2 INVESTMENTS	434.81	283.14	818.93	810.60
3 OTHER EARNING ASSETS	-	11.40	11.30	11.24
4 NON-EARNING ASSETS	2,886.92	315.46	244.31	414.95
5 NON-PERFORMING FINANCES-net	-	-	-	-
TOTAL ASSETS	3,709.32	744.62	1,188.53	1,316.69
6 FUNDING	796.98	434.14	827.33	825.00
7 OTHER LIABILITIES (NON-INTEREST BEARING)	1,137.23	187.65	181.60	317.94
TOTAL LIABILITIES	1,934.21	621.79	1,008.93	1,142.94
TOTAL EQUITY	1,775.12	122.83	169.98	163.15

**INCOME STATEMENT
INCOME**

	Sep-24 CY24 9M Management	Dec-23 CY23 12M Audited	Dec-22 CY22 12M Audited	Dec-21 CY21 12M Audited
1 FEE BASED INCOME	523.12	28.29	96.23	234.24
2 OPERATING EXPENSES	(364.55)	(56.10)	(205.81)	(196.22)
3 NON-FEE BASED INCOME	269.24	37.97	134.92	38.12
TOTAL OPERATING INCOME (LOSS)	427.81	10.16	25.34	76.14
4 FINANCIAL CHARGES	(104.17)	(33.05)	(111.77)	(43.80)
PRE-TAX PROFIT	304.92	(22.90)	(86.44)	32.05
5 TAXES	(27.08)	(3.04)	(19.11)	(17.79)
PROFIT AFTER TAX	277.84	(25.94)	(105.55)	14.26

**RATIOS
BUSINESS SUSTAINABILITY**

	Sep-24 CY24 9M Management	Dec-23 CY23 12M Audited	Dec-22 CY22 12M Audited	Dec-21 CY21 12M Audited
1 PRE-TAX MARGIN	0.58	(0.75)	(0.74)	0.13
2 EBITDA MARGIN	0.78	0.33	0.22	0.31
3 EBIT RETURN ON ASSETS	0.22	0.01	0.02	0.07

FINANCIAL SUSTAINABILITY

	Sep-24 CY24 9M Management	Dec-23 CY23 12M Audited	Dec-22 CY22 12M Audited	Dec-21 CY21 12M Audited
1 TOTAL INVESTMENTS / EQUITY	0.24	2.31	4.82	4.97
2 LIQUID CAPITAL BALANCE (LCB) / EQUITY	0.15	2.67	4.88	5.23
3 (CASH, CASH EQUIVALENTS & GOVERNMENT SECURITIES) / TOTAL ASSETS	0.12	0.40	0.70	0.63
4 TOTAL DEBT / TOTAL ASSETS	0.22	0.58	0.70	0.63

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).
- (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)

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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