



The Pakistan Credit Rating Agency Limited

Rating Report

Spectrum Securities Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
21-Nov-2024	BFR 3+	Stable	Maintain	-
21-Nov-2023	BFR 3+	Stable	Upgrade	-
30-Nov-2022	BFR 3	Stable	Maintain	-
20-Dec-2021	BFR 3	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	Mr. Muhammad Owais is the primary sponsor with ~97% of the ownership. Mr. Owais has been injecting capital into the Company with increasing quantum of operations. The business acumen of the primary sponsor is well noted.
Governance	The Company has a small board comprising three directors. The presence of an independent director and board committees enhances oversight.
Management and Client Services	The ratings draw comfort from an experienced and qualified management team. Segregation of key management roles would improve the organizational structure further. Client services are considered adequate with research and online trading portals available.
Internal Controls and Regulatory Compliance	Separation of internal audit and compliance functions is present, providing a good control framework. Oversight may be further improved by the inclusion of an independent director on the board audit committee.
Business Sustainability	The Company has increased its market share from ~1.80% in FY23 to ~2.71% in FY24, reflecting a growth of ~50.56%. This growth is also evident in the Company's brokerage revenue, which surged by 180%, rising from PKR 42 million in FY23 to PKR 115 million in FY24. Market volumes and values surged by ~135% and ~147% respectively during FY24 as compared to FY23. SSL was able to perform better than the market due to having additional cash available through equity injection.
Financial Sustainability	The Company has an adequate capitalization level with regulatory Liquid Capital Balance (LCB) standing at ~PKR 134mln at end-Jun'24. The Company's equity stood at ~PKR 386mln at end-Jun'24.

Key Rating Drivers

Spectrum Securities Limited ('SSL' or the 'Company') has outperformed the market during FY24 due to the equity injection at the right time to take advantage of the market uptick. Going forward, it is imperative from a ratings perspective to maintain topline growth, revenue diversification, and profitability. Maintenance and improvement in market share remains important. Moreover, retention of key management personnel and further separation of management roles remain critical.

Disclosure

Name of Rated Entity	Spectrum 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	Hassaan Ahmad Hassaan.Ahmad@pacra.com +92-42-35869504

Profile

Background Spectrum Securities Limited, “SSL or the Company” was incorporated under the Companies Ordinance 1984 after the acquisition of TREC from M/S Mazhar Hussain Securities (Pvt.) Limited in the year 2000. SSL is a Corporate Member of the Pakistan Stock Exchange and registered with SECP.

Operations SSL primarily provides the services of equity brokerage while clients are also facilitated with in-house research. The clientele of the Company is segregated into three categories i) HNWI ii) Financial institutions/Corporates iii) Retail.

Ownership

Ownership Structure Mr. Muhammad Owais injected PKR 210mln during FY24, increasing his ownership stakes to ~97%. Mrs. Atiq Zafar owns the remaining 3% shares.

Stability The formation of a written shareholding agreement and succession plan would be a strengthening factor, ensuring clear ownership guidelines and smooth leadership transitions, while minimizing potential conflicts. This structured approach provides long-term stability and aligns the interests of all stakeholders, fostering trust and continuity.

Business Acumen The primary sponsor showcased his business acumen by injecting equity at the right time, thus was able to take advantage of the market uptick. Resultantly, SSL grew its market share by ~50% during FY24.

Financial Strength The sponsors have considerable net worth and may inject capital in the Company with the increasing quantum of operations. This also shows the sponsors' commitment in case a financial need arises, providing the Company with a strong financial safety net and reinforcing investor confidence in its long-term viability and growth potential.

Governance

Board Structure The Company’s board comprises of three directors including the CEO – Mr. Ahmed Nabeel. Mr. Muhammad Imran Arif (COO) serves as an executive director while Mr. Munir Hussain is an independent director which enhances the governance profile.

Members' Profile The board possesses the necessary skills and experience required for capital markets. The board members, on average, possess more than ~20 years of experience in the field of finance and capital markets.

Board Effectiveness To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee, HR Committee, Risk Management Committee and Investment Decision Making Committee at the board level.

Financial SSL has appointed Nasir Javed Masood Imran & Company Chartered Accountants as its external auditor which falls in the B category of the SBP’s panel of auditors.

Management And Client Services

Organizational Structure The Company has an adequate organizational structure with an experienced management team and a balanced mix of professionals from the finance industry. The functions of the Company are mainly divided into 1) Sales 2) Research 3) Operations (Settlement, CS & IT) 4) HR 5) Compliance, and 6) Internal Audit.

Management Team The CEO, Mr. Ahmed Nabeel, the CFO, Mr. Muhammad Umair Arif, and the COO, Mr. Muhammad Imran Arif, form the senior management team of SSL. Mr. Ahmed Nabeel has extensive and diversified experience in the capital market, spanning over twenty-five years. Mr. Muhammad Umair, who holds a Master’s degree, has been with the Company since 2015, serving as both CFO and Company Secretary. He also heads the Compliance Department. Recently, Basharat Ullah was appointed as the Head of the Research Department, bringing with him 20 years of experience.

Client Servicing The Company has provided its customers with various channels, including a mobile app and online trading platform to facilitate for execution and monitoring of their transactions. Moreover, SSL provides technical and fundamental research reports to its clients.

Complaint Management SSL has an effective complaint management system with a clear policy. Complaints can be submitted via email, phone, or the website, ensuring easy access and timely response for customers.

Extent Of Automation / Integration The Company has integrated database platforms and can generate real-time MIS reports on a timely basis, enabling efficient decision-making and improved operational oversight.

Continuity Of Operations SSL has well-defined Disaster Recovery and Business Continuity Plans supported by adequately drafted policies. The DRP/BCP systems are tested bi-annually with the secondary data storage site at different premises. The Disaster Recovery plan was recently tested as an unfortunate fire affected the previous head office of the Company. Despite the major setback, SSL’s customers experienced no interruption in their continued services.

Internal Controls And Regulatory Compliance

Risk Management Framework To ensure operational efficiency and appraisal of internal controls, the Company has an in-house internal audit department, which implements and monitors the policies and procedures of the Company. Audit Committee is responsible for overseeing the Company’s significant risk areas; assessed by the management and internal or external auditor as well as the related controls to mitigate such risks. An independent risk management department would have further strengthened the risk management Framework.

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. However, the separation of compliance and finance functions is encouraged.

Business Sustainability

Operating Environment 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.

Performance SSL's revenue increased significantly from ~PKR 42mln in FY23 to ~PKR 115mln in FY24 due to increased market activity. Consequently, the Company reported a net profit of ~PKR 51mln for FY24, compared to a net loss of ~PKR 32mln.

Strategy The Company is considering diversifying its presence in the north to capture the untapped market. The CEO has a medium-term strategy to initiate corporate finance services and to focus on enhancing the corporate and HNWI's clientele. The Company had a plan to open 3 new branches in Peshawar, Faisalabad, and Islamabad for geographical diversification. Further equity injection is also part of a strategic plan.

Financial Sustainability

Credit Risk SSL enforces rigorous due diligence policies for clients, including thorough identity verification and compliance with SECP regulations. Clients unable to provide necessary information or with questionable legitimacy are declined. High-risk clients face heightened due diligence. Regular account reviews monitor suspicious transactions, and staff receive anti-money laundering training, reporting suspicions to the Compliance Head, Mr. Muhammad Umair Arif.

Market Risk The Company is running its own proprietary book with a market value of ~PKR 23mln at end-Jun'24. The magnitude of short-term investments at ~6.1% is nominal as compared to equity. However, a comprehensive proprietary policy doesn't exist.

Liquidity Risk SSL has Reported current assets of ~PKR 498mln for FY24 as compared to current liabilities of ~PKR 150mln. Liquid assets are considered good to account for current liabilities of the Company.

Capitalization The Company has an adequate capitalization level with regulatory Liquid Capital Balance (LCB) standing at ~PKR 134mln at end-Jun'24. The Company's equity stood at ~PKR 386mln at end-Jun'24

THE PAKISTAN CREDIT RATING AGENCY

Spectrum Securities Limited
PUBLIC UNLISTED LIMITED
FINANCIAL SUMMARY

FS PRINT MODE DISABLED

Jun-24
FY24
12M
Audited

Jun-23
FY23
12M
Audited

Jun-22
FY22
12M
Audited

BALANCE SHEET

	Jun-24 FY24 12M Audited	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited
1 FINANCES	16.12	11.60	20.76
2 INVESTMENTS	23.85	26.17	82.21
3 OTHER EARNING ASSETS	-	-	-
4 NON-EARNING ASSETS	497.27	135.97	141.15
5 NON-PERFORMING FINANCES-net	-	-	-
TOTAL ASSETS	537.24	173.75	244.12
6 FUNDING	-	-	2.00
7 OTHER LIABILITIES (NON-INTEREST BEARING)	150.35	35.61	82.09
TOTAL LIABILITIES	150.35	35.61	84.09
TOTAL EQUITY	386.90	126.53	160.03

INCOME STATEMENT

INCOME

1 FEE BASED INCOME	115.43	41.84	67.96
2 OPERATING EXPENSES	(123.25)	(74.35)	(89.13)
3 NON-FEE BASED INCOME	62.83	(14.34)	(10.94)
TOTAL OPERATING INCOME (LOSS)	55.00	(46.86)	(32.11)
4 FINANCIAL CHARGES	(2.67)	(0.81)	(0.00)
PRE-TAX PROFIT	56.39	(32.75)	(17.83)
5 TAXES	(4.93)	0.61	(2.16)
PROFIT AFTER TAX	51.47	(32.14)	(19.99)

RATIOS

BUSINESS SUSTAINABILITY

1 PRE-TAX MARGIN	0.49	(0.78)	(0.26)
2 EBITDA MARGIN	0.51	(0.76)	(0.26)
3 EBIT RETURN ON ASSETS	0.17	(0.15)	(0.06)

FINANCIAL SUSTAINABILITY

1 TOTAL INVESTMENTS / EQUITY	0.06	0.21	0.51
2 LIQUID CAPITAL BALANCE (LCB) / EQUITY	N/A	0.37	0.31
3 (CASH, CASH EQUIVALENTS & GOVERNMENT SECURITIES) / TOTAL ASSETS	0.06	0.17	0.28
4 TOTAL DEBT / TOTAL ASSETS	-	-	0.01

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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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)

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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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