



## The Pakistan Credit Rating Agency Limited

### Rating Report

## Spectrum Securities Limited | BMR

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Nov-2023	BMR3+	-	Stable	Maintain	-
30-Nov-2022	BMR3+	-	Stable	Maintain	-
30-Nov-2021	BMR3+	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Spectrum Securities Limited ('SSL' or the 'Company') primarily provides equity brokerage services, while diversification is present through RBFS, MFS, and MFS. FY23 experienced low market volumes and limited investor interest, impacting the brokerage industry's revenue; however, since the start of FY24, the market volumes have picked up and investor interest has managed to push the index to historic highs. Market volumes growth trend appears to be ongoing, resulting in positive market indicators for FY24. The rating incorporates the business acumen of the primary sponsor, Mr. Muhammad Owais, Mr. Owais injected PKR 210mln into the Company during 1QFY24, providing much needed cashflow to SSL in order to capitalize on the market upturn. The governance framework is considered adequate. Enhancement of board size and inclusion of independent oversight to board committees would enhance the governance framework. The Company has an experienced and qualified management team, whereas separation of key management roles would improve the organizational structure. Separation of audit and compliance functions ensure an adequate control environment. A dedicated head of compliance would further enhance oversight. The Company has established rigorous protocols regarding risk assessment by implementing KYC, CDD, AML, CFT, and whistleblowing Policies. During FY23, the equity brokerage revenue stood at ~PKR 42mln depicting a decline of ~38% (SPLY: ~PKR 68mln). FY23 was a subdued year for SSL, incurring a loss of ~PKR 32mln during the period. Whereas, in 1QFY24 the equity brokerage revenue was reported at ~PKR 18mln, (SPLY: ~PKR 10mln). However, the Company managed to outperform the market during 1QFY24 by growing its topline by ~69% as compared with market volumes growth of ~31%, resulting in improved market share of the Company. As a result, SSL reported a profit after tax of ~PKR 3mln during 1QFY24. Moreover, the recent equity inclusion along with a zero-leveraged capital structure provide comfort to the ratings. The equity base of SSL stood at ~PKR 340mln at end-Sep'23.

Moving forward, it is imperative from a ratings perspective to maintain topline growth, revenue diversification, and profitability. Moreover, retention of key management personnel and further separation of management roles remain critical.

#### Disclosure

<b>Name of Rated Entity</b>	Spectrum Securities Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	Assessment Framework   Broker Management Rating(Jun-22)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-23)
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## Ownership

**Ownership Structure** Recently, there has been a shift in the shareholding pattern. Mr. Muhammad Owais, who previously held around 51% ownership rights, now possesses approximately 83% of the shares, and the CEO-Mr. Ahmed Nabeel owns ~2% of the shareholding.

**Stability** The formation of a written shareholding agreement and succession plan would be a strengthening factor.

**Business Acumen** The Company's sponsor possesses the relevant educational background and ample industry understanding. The overall assessment of the strategic thinking proficiency of sponsors is comfortable.

**Financial Strength** The sponsors have considerable net worth and may inject capital in the Company with increasing quantum of operations. This also shows the sponsors commitment in case a financial need arises.

## Governance

**Board Structure** The company's board consists of three directors, including CEO Mr. Ahmed Nabeel. Mr. Muhammad Umair Arif (CFO) is an executive director, and Mr. Muhammad Harris serves as an independent director, contributing to a strengthened governance profile.

**Members' Profile** The board has the essential skills and experience required for the capital markets. On average, board members have over 20 years of experience in finance and capital markets.

**Board Effectiveness** To establish an efficient control environment and ensure compliance with reporting standards, the company has established board-level committees, including the Audit Committee, HR Committee, Risk Management Committee, and Investment Decision Making Committee.

**Financial Transparency** 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

**Management Team** Mr. Ahmed Nabeel, the CEO, and Mr. Muhammad Umair Arif, the CFO and Company Secretary are integral parts of SSL's senior management. Mr. Ahmed Nabeel brings over twenty-five years of diverse experience in the capital market. Mr. Muhammad Umair holds a Master's degree and has been with the company since 2015, serving as the CFO and Company Secretary. Mr. Umair Arif also leads the Compliance department.

**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.

**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** The company has a well-established complaint management system with a clearly defined policy in place. Complaints can be submitted through email, phone calls, and the company's website.

**Extent Of Automation / Integration** The Company has integrated database platforms and can generate real-time MIS reports on timely basis.

**Continuity Of Operations** The Company 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.

**Risk Management Framework** The company maintains an in-house internal audit department to ensure operational efficiency and internal control assessment. The Audit Committee oversees significant risk areas, evaluated by both management and internal/external auditors, along with related risk mitigation controls. The addition of an independent risk management department would further enhance the risk management framework.

**Regulatory Compliance** The Compliance Department conducts ongoing checks on controls and systems to ensure alignment with company policies and procedures. They have also established a research analyst policy. However, it is recommended to promote a clear separation of compliance and finance functions.

## Business Sustainability

**Business Risk** FY23 has been a challenging year for the brokerage industry. High political uncertainty along with high inflation crippled the economic condition of the country. Market volumes remained subdued as investors opted for the safer fixed market returns resulting from the high interest rates prevailing in the economy. However, the start of FY24 has seen a recovery in the confidence of investors. The resumption of the IMF program and the recent steps taken by the government to address longstanding economic issues such as the reduction of circular debt has boosted the market volumes. That being said, political turmoil still prevails in the country and many investors are still waiting for the conclusion of the election process before showing their hands.

**Business Profile** The company primarily offers equity brokerage services to institutional and high-net-worth/retail investors. Additionally, there is a dedicated research department to assist clients.

**Revenue And Profitability Analysis** The Company's operating revenue is mainly concentrated in equity brokerage. During FY23, the equity brokerage revenue stood at ~PKR 42mln depicting a decline of ~38% (SPLY: ~PKR 68mln). Whereas, in 1QFY24 the equity brokerage revenue was reported at ~PKR 18mln, (SPLY: ~PKR10mln). During 1QFY24, SSL earned a net profit of ~PKR 3mln (SPLY: a net loss of ~PKR 5mln). The profit is on account of increased revenue due to better market performance and the other income of ~PKR 7mln (SPLY: ~PKR 3mln). However, during 1QFY24, SSL performed comparatively better as compared to FY23. The market volumes during 1QFY24 increased by ~31% when compared with 1QFY23 whereas the revenue of SSL elevated by ~69%.

## Financial Sustainability

**Credit Risk** The company has comprehensive KYC/CDD procedures to evaluate client creditworthiness. As of the end-Jun'23, the company has outstanding receivables of ~PKR 4mln.

**Market Risk** The Company is running its own proprietary book with a market value of ~PKR 26mln at end Jun'23 and ~PKR 52mln at end Sep'23 which constitutes ~15% of the equity thus exposing the Company to limited market volatility.

**Liquidity Profile** The Company has an adequate liquidity profile as the Company has reported current assets of ~PKR 403mln at end-Sep'23 as compared to current liabilities of ~PKR 85mln.

**Financial Risk** The Company has an adequate capitalization level with regulatory Liquid Capital Balance (LCB) standing at ~PKR 46mln at end-Jun'23. The Company's equity stood at ~PKR 126mln at end- Jun'23. To further improve the equity, the primary sponsor has injected ~PKR 210mln into the Company during the quarter ended Sep'23. Therefore, during 1QFY24, the equity stood at ~PKR 340mln. However, approval of the enhancement of paid-up capital is currently pending by the SECP.



PKR  
mln

**Spectrum Securities Limited**  
**Public Unlisted**

Sep-23	Jun-23	Jun-22	Jun-21
3M	12M	12M	12M

**A BALANCE SHEET**

1 Finances	0.00	11.60	20.76	15.53
2 Investments	52.18	26.17	82.21	56.36
3 Other Earning Assets	321.73	73.80	85.57	146.31
4 Non-Earning Assets	0.00	50.57	55.58	102.96
5 Non-Performing Finances-net	0.00	0.00	0.00	0.00
<b>Total Assets</b>	<b>0.00</b>	<b>162.14</b>	<b>244.12</b>	<b>321.15</b>
6 Funding	0.00	0.00	2.00	10.00
7 Other Liabilities (Non-Interest Bearing)	84.54	35.61	82.09	123.85
<b>Total Liabilities</b>	<b>84.54</b>	<b>35.61</b>	<b>84.09</b>	<b>133.85</b>
<b>Equity</b>	<b>340.01</b>	<b>126.53</b>	<b>160.03</b>	<b>187.30</b>

**B INCOME STATEMENT**

1 Fee Based Income	18.29	41.84	67.96	117.74
2 Operating Expenses	(21.78)	(74.35)	(89.13)	(100.30)
3 Non Fee Based Income	6.97	0.57	3.35	30.41
<b>Total Operating Income/(Loss)</b>	<b>3.48</b>	<b>-31.94</b>	<b>-17.82</b>	<b>47.85</b>
4 Financial Charges	-0.00	-0.81	-0.00	-0.00
<b>Pre-Tax Profit</b>	<b>3.48</b>	<b>-32.75</b>	<b>-17.83</b>	<b>47.85</b>
5 Taxes	0.00	0.61	-2.16	-9.09
<b>Profit After Tax</b>	<b>3.48</b>	<b>-32.14</b>	<b>-19.99</b>	<b>38.75</b>

**C RATIO ANALYSIS**

**1 Cost Structure**

Financial Charges / Total Operating Income/(Loss)	0%	-3%	0%	0%
Return on Equity (ROE)	N/A	-47%	-22%	43%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	N/A	78%	66%	58%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	653716%	-21.93	-2082.44	14255.80

**3 Liquidity**

Liquid Assets / Total Assets (D+E+F)	N/A	4%	10%	25%
Liquid Assets / Trade Related Liabilities	N/A	20%	30%	74%

**4 Credit & Market Risk**

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	21%	12%	26%	63%
Equity Instruments / Investments	0%	0%	0%	0%

### Broker Management Rating

An independent opinion on the quality of management and services provided by a broker

Scale	Definition
<b>BMR 1A</b>	<b>Excellent.</b> Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++</b> <b>BMR 1+</b> <b>BMR 1</b>	<b>Strong.</b> Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++</b> <b>BMR 2+</b> <b>BMR 2</b>	<b>Sound.</b> Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++</b> <b>BMR 3+</b> <b>BMR 3</b>	<b>Adequate.</b> Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++</b> <b>BMR 4+</b> <b>BMR 4</b>	<b>Inadequate.</b> Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak.</b> Weak regulatory compliance and business practices.

<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) 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><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.

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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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### **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)

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- (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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