



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-2024	BMR3+	-	Stable	Maintain	-
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") is mainly engaged in the provision of equity brokerage services to institutional and HNW/retail investors. During FY24 the brokerage industry experienced high volumes. This can be attributed to low market P/E multiples, declining interest rates, and improving macro-economic indicators renewing investor confidence. 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 strategic vision of the primary sponsor, Mr. Muhammad Owais, enabled a timely equity injection to take advantage of the market uptick. Resultantly, SSL was able to enhance its market share from ~1.8% in FY23 to ~2.7% in FY24. Governance framework is adequate; however, board size may be enhanced for better oversight. The Company has a lean organizational structure with most of the heads reporting to the CEO. The management team comprises seasoned professionals who ensure the sound quality of services. The rating draws comfort from the experienced profile of the CEO. The assigned rating incorporates the Company's satisfactory internal control and risk management framework. An in-house internal audit department provides support; however, staff strength may be increased to augment the oversight framework. The control environment could be strengthened further by separating the compliance and finance departments. The rating also takes note of an adequate customer relationship and IT infrastructure. A research department is in place to provide the clients with the necessary research services. The Company's effective and recently tested Disaster Recovery plan, and an efficient transaction execution and monitoring system, provides a boost to the rating. The Company is managing a proprietary investment book with a market value of ~PKR 23mln at end-Jun'24. The magnitude of short-term investments at ~6% of equity limits exposure to market risk. The Company's brokerage revenue increased significantly from ~PKR 42mln in FY23 to ~PKR 115mln in FY24 due to increased market activity. SSL has an adequate equity base of ~PKR 386mln at end-Jun'24.

Going forward, continued topline growth and enhancement of topline diversification are key factors for ratings. Meanwhile, retention of key personnel, improvement in customer servicing tools and maintaining strong controls will remain critical.

Disclosure

Name of Rated Entity	Spectrum Securities Limited BMR
Type of Relationship	Solicited
Purpose of the Rating	Broker Management Rating
Applicable Criteria	Assessment Framework Broker Management Rating(Nov-23)
Related Research	Sector Study Brokerage & Securities(Jan-24)
Rating Analysts	Hassan Ahmad Hassan.Ahmad@pacra.com +92-42-35869504



Ownership

Ownership Structure Mr. Muhammad Owais injected PKR 210mln during FY24, increasing his ownership stakes to ~97%. Mrs. Atiqa 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 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 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.

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 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.

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

Business Risk Since Oct'23, the KSE-100 Index has experienced a surge in investor interest, with the index breaching historic high levels continuously and breaching the 86k mark for the first-time during Oct'24. The market P/E ratio is still considerably low and the index is expected to grow further. Of particular note is the decision of the country's policy rate, and the expected rate cuts during FY25 shall give rise to fresh buying as investors shift the focus from fixed-income to the equity market. While FY24 has had good results for the brokerage industry, political and economic stability are key factors to uphold investor interest during FY25.

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, providing valuable market insights and personalized investment strategies to enhance decision-making and optimize returns.

Revenue And Profitability Analysis The Company's revenue increased significantly from ~PKR 41mln in FY23 to about ~PKR 118mln in FY24 due to increased market activity. Consequently, the Company reported a net profit of ~PKR 51mln for FY24, compared to (SPLY loss ~PKR 32mln) The main source of revenue is commission on equity brokerage.

Financial Sustainability

Credit Risk SSL has comprehensive KYC/CDD procedures to evaluate client creditworthiness. As of the end-Jun'24, the Company has outstanding receivables of ~PKR 220mln.

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 Profile 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.

Financial Risk 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



Spectrum Securities Limited
Public Unlisted

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

A BALANCE SHEET

1 Finances	24.62	11.60	20.76
2 Investments	23.85	26.17	82.21
3 Other Earning Assets	207.26	73.80	85.57
4 Non-Earning Assets	281.48	50.57	55.58
5 Non-Performing Finances-net	0.00	0.00	0.00
Total Assets	537.21	162.14	244.12
6 Funding	0.00	0.00	2.00
7 Other Liabilities (Non-Interest Bearing)	150.35	35.61	82.09
Total Liabilities	150.35	35.61	84.09
Equity	386.90	126.53	160.03

B INCOME STATEMENT

1 Fee Based Income	118.84	41.84	67.96
2 Operating Expenses	(123.25)	(74.35)	(89.13)
3 Non Fee Based Income	63.47	0.57	3.35
Total Operating Income/(Loss)	59.06	(31.94)	(17.82)
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)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	5%	-3%	0%
Return on Equity (ROE)	20%	-22%	-12%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	72%	78%	66%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	1160%	-21.93	-2082.44

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	41%	4%	10%
Liquid Assets / Trade Related Liabilities	196%	20%	30%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	195%	12%	26%
Equity Instruments / Investments	0%	0%	0%

Broker Management Rating

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

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

<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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