



The Pakistan Credit Rating Agency Limited

## Rating Report

### Zafar Securities (Pvt.) Limited | BFR

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
07-Mar-2025	BFR 3+	Stable	Maintain	-
08-Mar-2024	BFR 3+	Stable	Maintain	-
09-Mar-2023	BFR 3+	Stable	Maintain	-
31-Mar-2022	BFR 3+	Stable	Initial	-

### Rating Rationale

Factor	Comment
<b>Ownership</b>	The rating incorporates the long-standing experience of the sponsor Mr. Syed Asim Zafar who owns the majority shareholding of ~80%. The remaining ownership vests with Mr. Kamran Ali Farooqi (10%), Ms. Aleezeh Hussain Farooqi (5%) and Ms. Manizeh Hussain Farooqi (5%).
<b>Governance</b>	The company maintains a sound board structure, consisting of three executive directors and two non-executive directors. The addition of independent representation could be considered to further enhance the governance framework.
<b>Management and Client Services</b>	The company operates with a streamlined organizational structure, supported by a qualified and experienced management team. Client services are of a high standard, with the availability of online trading and a mobile application. While research services are currently limited, the planned addition of an analyst is expected to enhance their functionality in the future.
<b>Internal Controls and Regulatory Compliance</b>	The rating reflects an adequate internal control framework, supported by the presence of the Compliance and Internal Audit departments. However, there is a need to expand the depth and scope of both departments. The company has developed all necessary policies to ensure an effective control framework.
<b>Business Sustainability</b>	ZSPL has demonstrated strong performance in 1HFY25 compared to 1HFY24, reporting a net profit of ~PKR 63 million, up from ~PKR 39 million in the same period last year.
<b>Financial Sustainability</b>	ZSPL engages in proprietary trading, which exposes the company to market risk. It maintains a zero-leverage capital structure and has a sufficient equity base of ~PKR 313 million as of end-December 2024, providing the resilience to withstand market fluctuations.

### Key Rating Drivers

Zafar securities (Pvt.) Limited ('ZSPL' or the 'company') has maintained its market position and achieved strong profit margins in 1HFY25 due to effective investment management. To strengthen its position, the Company should diversify its revenue sources, retain key management, enhance client services, and focus on profit sustainability.

#### Disclosure

<b>Name of Rated Entity</b>	Zafar Securities (Pvt.) Limited   BFR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Fiduciary Rating (BFR)
<b>Applicable Criteria</b>	Assessment Framework   Broker Fiduciary Rating(Jan-25)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-24)
<b>Rating Analysts</b>	Usama Ali   usama.ali@pacra.com   +92-42-35869504

## Profile

**Background** The Company continues to operate its existing technology-driven platforms, including the BOS Trading Terminal, which offers clients real-time access to their accounts and the ability to execute trades directly on the Pakistan Stock Exchange. ZSPL remains committed to leveraging technology to enhance client services and streamline trading activities.

**Operations** The Company's service offering includes Equity Brokerage and commodity brokerage. The Company's equity brokerage comprises of dealing in securities on Ready and future counters. The clientele of the Company is mainly segmented into three categories i) individuals ii) High Net Worth Clients and iii) Corporate, while corporate clientele makes up a minor part of their customer portfolio.

## Ownership

**Ownership Structure** Controlling stakes are held by the CEO Mr. Syed Asim Zafar at -80%. The second highest ownership belonged to Mr. Kamran Ali Farooqi who is son of Ms. Khola Hussain (Late) owned 10% of the total shares. Ms. Aleezeh Hussain Farooqi and Ms. Manizeh Hussain Farooqi who are the daughter of Ms. Khola Hussain (Late) both owned 5% of the ownership.

**Stability** Mr. Asim Zafar plans to give succession of ZSPL to his son Mr. Syed Muhammad Zafar in the future and he is also providing training to his son for handling all the operations of the company. For now, Mr. Asim Zafar shall continue as CEO for the foreseeable future

**Business Acumen** The Company's sponsor possesses the relevant educational background and extensive industry specific working knowledge. Mr. Syed Asim Zafar has served on the Board of Directors of Lahore Stock Exchange Limited for multiple years from 1994 to 2007. He is also a Founder Member of Pakistan Mercantile Exchange.

**Financial Strength** The sponsors have adequate net worth as they have family businesses of real estate which is Khayaban-e-Zafar and law firm which is Mandviwalla & Zafar. Zafar securities does acquire clients from these Family Businesses. This shows the sponsors commitment in case financial need arises.

## Governance

**Board Structure** The Company's Board of Directors (BoD) comprised of five members, three of them is executive director and the other two are Non-Executive Directors. Independent representation would strengthen the governance factor.

**Members' Profile** The board possess the necessary skills and experience required for capital markets. The board members possess a diversified background of the finance and capital markets while also having an entrepreneurial background of the textile industry.

**Board Effectiveness** To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee, HR Committee and Executive Risk Management Committee. ZSPL also has multiple Management committees which are Management Committee, Investment Committee, IT Steering Committee, Web Development & Online Marketing Committee and The Fraud and Ethics Committee. The internal auditor currently reports directly to the CEO who also serves as the Chairman of the Board. Consequently, the CEO is integrated into the Audit Committee, a structure that may not be optimal in terms of an effective control environment for the Company.

**Financial** The external auditors of the Company are Amin, Mudassar and Co Chartered Accountants which have satisfactory QCR rating from the Institute of Chartered Accountants of Pakistan. The auditors of the Company are classified in the 'B' category of State Bank of Pakistan panel of Auditors.

## Management And Client Services

**Organizational Structure** The Company has a lean organizational structure. ZSPL operates through seven departments namely i) Trading & Settlements ii) Accounts iii) Information Technology iv) Human Resource v) Marketing & Sales vi) Research vii) Internal Audit. All of the departmental heads directly report to the CEO. However, the Internal Auditor reports to the Board's Audit Committee.

**Management Team** ZSPL's management team comprises experienced and professional individuals who possess significant market knowledge. The CFO Mr. Agha Shuja Ali Zaidi has a Masters Degree and has been overseeing the financial operations for more than 15 years. The head of IT has more than 20 years of industry experience and has been with The Company for more than 18 years.

**Client Servicing** ZSPL has provided its customers with various channels, including a mobile app and online trading platform to facilitate them for execution and monitoring of their transactions. ZSPL has maintained a functional and accessible website for its clients and all the relevant industry and regulators links are provided.

**Complaint Management** ZSPL has prepared formal customer complaint policy in accordance with the Sec 27 of Securities Brokers Regulation 2016. The policy is approved by the board of directors. ZSPL has a feedback area on its website which can be used to lodge complaints and investors can lodge initial complaints through phone calls, SMS/WhatsApp, Email, Website and by physical appearance; however, the main query system in place for complaints is through their website and most employees' direct customers who have approached from other means towards their website.

**Extent Of Automation / Integration** ZSPL has a customized technology driven trading platform that allows seamless and secure trading. ZSPL's back office and web portal are both purchased from Softech so there is effective real-time integration between the two.

**Continuity Of Operations** ZSPL has in place a comprehensive Disaster Recovery Policy which provides a guide for resuming all critical operations in the shortest possible time. The data pertaining to back-office records and back-office applications are being backed up once a day.

## Internal Controls And Regulatory Compliance

**Risk Management Framework** ZSPL has established Risk Management Committee at board level for reviewing risk appetite, policies and controls put in place. ZSPL has an in-house internal audit function; however, it is comprised of a single person and therefore has limited scope. ZSPL has standardized, policy-based risk management procedures.

**Regulatory Compliance** ZSPL's compliance department ensures that it is compliant with all the PSX requirements and other regulations (AML/CFT) that pertain to its particular industry, as well as professional standards, accepted business practices, and internal standards. ZSPL's compliance department consists of a sole member therefore it has constrained scope.

## 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** ZSPL's operating revenue is mainly concentrated to equity brokerage. Operating revenue comprises of commission income and unrealized gain on re-measurement of investments. During 1HFY25, brokerage commission stood at -PKR 66mln and there is capital gain on sale of marketable securities of ~PKR 17mln. Zafar Securities reported a net profit of ~PKR 63mln during 1HFY24 (SPLY: ~PKR 37mln).

**Strategy** The management is considering to focus on better integration with technology moving forward. Mr. Asim is of the opinion that 5G and Artificial Intelligence (AI) needs to be focused on by ZSPL within the next 5 years, Possible Blockchain Integration may also be done as a means to have greater transparency.

## Financial Sustainability

**Credit Risk** As part of its credit policy, ZSPL review withdrawal requests of its clients on a case-to-case basis and checks for any outstanding balances before the withdrawal of funds. Moreover, the Compliance department reviews the creditworthiness of new customers, whereas, KYC and AML policy also exists for further support. A formal credit risk policy should be in place.

**Market Risk** ZSPL is running a proprietary book with an approximate value of PKR 57.8mln at end-Dec'24. However, it has established an appropriate proprietary trading policy.

**Liquidity Risk** ZSPL has adequate liquidity profile. The Company reported current assets of PKR 735mln as at end-Dec'24 as compared to current liabilities of -PKR 529mln.

**Capitalization** The Company has a reasonable capitalization level with regulatory. Liquid Capital Balance(LCB) standing at PKR 130mln at end Dec'24. The Company has an equity base of PKR 313mln as at end-Dec'24 as compared to PKR 249mln as at end-Jun 24.

THE PAKISTAN CREDIT RATING AGENCY

Zafar Securities (Pvt.) Limited

PRIVATE LIMITED

FINANCIAL SUMMARY

FS PRINT MODE DISABLED

Dec-24 FY25 6M Management	Jun-24 FY24 12M Audited	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited
------------------------------------	----------------------------------	----------------------------------	----------------------------------

BALANCE SHEET

1 FINANCES	-	-	-	-
2 INVESTMENTS	72.06	72.39	52.58	58.54
3 OTHER EARNING ASSETS	0.44	-	5.95	0.52
4 NON-EARNING ASSETS	771.14	428.92	244.07	352.11
5 NON-PERFORMING FINANCES-net	-	-	-	-
<b>TOTAL ASSETS</b>	<b>843.64</b>	<b>501.31</b>	<b>302.60</b>	<b>411.18</b>
6 FUNDING	42.15	20.00	-	10.00
7 OTHER LIABILITIES (NON-INTEREST BEARING)	488.81	231.82	90.19	149.15
<b>TOTAL LIABILITIES</b>	<b>530.96</b>	<b>251.82</b>	<b>90.19</b>	<b>159.15</b>
<b>TOTAL EQUITY</b>	<b>312.68</b>	<b>249.49</b>	<b>212.41</b>	<b>252.03</b>

INCOME STATEMENT

INCOME

1 FEE BASED INCOME	66.02	77.86	51.64	71.28
2 OPERATING EXPENSES	(65.60)	(125.74)	(92.14)	(86.20)
3 NON-FEE BASED INCOME	16.56	27.80	5.43	(5.05)
<b>TOTAL OPERATING INCOME (LOSS)</b>	<b>16.98</b>	<b>(20.07)</b>	<b>(35.08)</b>	<b>(19.97)</b>
4 FINANCIAL CHARGES	(0.15)	(0.31)	(0.22)	(0.17)
<b>PRE-TAX PROFIT</b>	<b>63.19</b>	<b>37.07</b>	<b>(16.23)</b>	<b>(19.00)</b>
5 TAXES	-	-	(13.67)	(1.86)
<b>PROFIT AFTER TAX</b>	<b>63.19</b>	<b>37.07</b>	<b>(29.90)</b>	<b>(20.86)</b>

RATIOS

BUSINESS SUSTAINABILITY

1 PRE-TAX MARGIN	0.96	0.48	(0.31)	(0.27)
2 EBITDA MARGIN	0.96	0.48	(0.20)	(0.26)
3 EBIT RETURN ON ASSETS	0.18	0.09	(0.04)	(0.04)

FINANCIAL SUSTAINABILITY

1 TOTAL INVESTMENTS / EQUITY	23%	29%	25%	23%
2 LIQUID CAPITAL BALANCE (LCB) / EQUITY	33%	41%	51%	53%
3 (CASH, CASH EQUIVALENTS & GOVERNMENT SECURITIES) / TOTAL ASSETS	9%	14%	15%	9%
4 TOTAL DEBT / TOTAL ASSETS	5%	4%	0%	2%

### Broker Fiduciary Rating Scale & Definitions

An independent opinion on a broker's quality of management and client services and sustainability of operations

Scale	Definition
<b>BFR 1</b>	<b>Very Strong.</b> Very Strong quality of management and client services and a very high likelihood of sustaining operations.
<b>BFR 2++</b> <b>BFR 2+</b> <b>BFR 2</b>	<b>Strong.</b> Strong quality of management and client services and a high likelihood of sustaining operations.
<b>BFR 3++</b> <b>BFR 3+</b> <b>BFR 3</b>	<b>Good.</b> Good quality of management and client services and an above average likelihood of sustaining operations.
<b>BFR 4++</b> <b>BFR 4+</b> <b>BFR 4</b>	<b>Adequate.</b> Adequate quality of management and client services and an average likelihood of sustaining operations.
<b>BFR 5</b>	<b>Weak.</b> Weak quality of management and client services and a weak likelihood of sustaining operations.

<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>
---	---	--	---	---

**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.

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent