



The Pakistan Credit Rating Agency Limited

Rating Report

IGI Finex Securities Limited | BMR

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Aug-2023	BMR2+	-	Stable	Maintain	-
26-Aug-2022	BMR2+	-	Stable	Maintain	-
15-Oct-2021	BMR2+	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

IGI Finex Securities Limited ('IGI' or the 'Company') is a wholly owned subsidiary of IGI Holdings Limited and is engaged in the provision of equity and commodity brokerage. The ratings incorporate the business acumen and financial strength of the sponsoring group. The assigned rating takes into account a sound ownership structure. The ratings signify a strong internal control framework supported by an outsourced internal audit function, a dedicated risk and compliance department, and the presence of all requisite policies and manuals. A qualified and experienced management team is present to ensure smooth operations, with a well-defined organizational structure in place. IGI provides its clients with research, online trading, and online complaint facilities. The governance structure is considered adequate with the presence of two non-executive directors and board-level committees well-noted. IGI does not partake in proprietary trading, thus exposure to market risk is limited. The Company aims to further solidify its presence in the market by focusing on the untapped retail segment. The topline of IGI is concentrated to equity brokerage and financial income on saving deposits. The Company earned brokerage revenue of ~PKR 54mln during 1HCY23 (SPLY: ~PKR 67mln), wherein the decline is in-line with the dip in market volumes. IGI supported its operations through interest income earned on savings account of ~PKR 146mln to generate a profit of ~PKR 86mln during 1HCY23 (SPLY: ~PKR 5mln). The Company's equity base stood at ~PKR 409mln at end-Jun'23.

Moving forward, improvement and diversification in core income, sustainability of market share and profitability, and materialization of planned business strategies remain critical. Meanwhile, upholding strong internal controls, sound governance structure, retention of key management personnel, and diligent monitoring of risks is important.

Disclosure

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

Ownership Structure IGI Finex Securities Limited is a wholly owned subsidiary of IGI Holdings Limited, with a 100% ownership stake.

Stability IGI Holdings, the parent company, has investments totaling around PKR 60 billion in insurance, brokerage, and asset management entities as of end-March 2023

Business Acumen IGI and Packages Group are recognized as leading industrial players, they have demonstrated exceptional growth and performance in areas such as paper and paperboard, packaging, financial institutions, education, and real estate.

Financial Strength The major shareholdings of the sponsors are concentrated in two main companies: IGI Holdings and Packages Limited. The combined asset and equity base of these holdings is around ~PKR 261 billion and ~PKR 110 billion as of 1QCY23

Governance

Board Structure IGI Finex Securities Limited's board consists of four directors, including the CEO and chairman. Among them, two directors are executive, and two are non-executive.

Members' Profile IGI Finex possesses a strong members profile. Syed Abdul Wahab Mehdi is the Chairman of IGI Securities Limited. He completed his Bachelor of Arts (B.A.) from the University of Massachusetts, USA. Previously, he has also worked at Bayer Pakistan (Pvt) Limited, Aventis CropScience Pakistan, AgrEvo Pakistan, Hoechst Pakistan Ltd., and Roussel Uclaf Environmental Health (Pvt.) Limited.

Board Effectiveness To remain in line with best corporate governance practices, the Company has formulated three board committees, i) Audit committee, ii) HR & remuneration committee, and iii) IT Steering committee.

Financial Transparency IGI has outsourced its internal audit function to EY Ford Rhodes Chartered Accountants and appointed A.F. Ferguson & Co. Chartered Accountants as the external auditor. The external auditor issued an unqualified opinion on the Company's financial statements for CY22.

Management

Management Team The Management Team, led by CEO Mr. Syed Raza Hussain Rizvi, boasts over eighteen years of diverse experience in Management, Corporate Strategy, Business Development, Mergers & Acquisitions, Capital Markets, Financial/Treasury Management, Corporate Governance, and Best Practices Implementation.

Organizational Structure The organizational structure of IGI is well-defined and consists of various departments. Each department is headed by experienced individuals who report directly to the CEO.

Client Servicing Client servicing is a priority for the company. IGI has streamlined digital account opening forms in partnership with PSX and offers various services. Robust reporting mechanisms and digital platforms keep the clients connected with trading.

Complaint Management To ensure customer satisfaction, Complaint Management Department is responsible for addressing and resolving customer complaints. The Compliance Officer oversees this department, maintaining records of all complaints. Periodic reports are submitted to SECP, as per Securities Broker Regulation 2016

Extent Of Automation / Integration The company has invested in cutting-edge technology, acquiring a state-of-the-art trading platform approved by SECP. This platform facilitates seamless and secure trading, even in the face of unexpected events

Continuity Of Operations A comprehensive disaster recovery plan ensures business continuity, with different backup strategies implemented based on specific backup requirements.

Risk Management Framework IGI Finex upholds a structured risk management framework to provide trading services. The company's board is responsible for formulating and monitoring risk management policies. Operational risks are identified and monitored through a code of conduct and trading hall SOPs.

Regulatory Compliance Regulatory compliance is diligently maintained by IGI's Compliance Department. The company ensures adherence to PSX requirements, SECP regulations regarding Anti Money Laundering and Countering Financing of Terrorism, professional standards, accepted business practices, and internal standards.

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 long-standing economic issues such as the reduction of circular debt has boosted the market volumes.

Business Profile The Company has a long-term strategy to promote retail investment by easing access to investment products and stock market trading with the help of digital initiatives.

Revenue And Profitability Analysis The company's revenue derives mainly from equity brokerage and financial income on saving deposits. In 1HCY23, equity brokerage revenue decreased to ~PKR 54mln compared to ~PKR 67mln in 1HCY22, whereby the decrease is in-line with the dip in market volumes. The company reported a net profit of ~PKR 86mln in 1HCY23 irrespective of decreased market volumes as compared to ~PKR 5mln in 1HCY22. The profitability surged due to interest income earned through saving deposits.

Financial Sustainability

Credit Risk Rigorous KYC/AML procedures, including Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD), are employed to assess client creditworthiness

Market Risk Market risk is mitigated by not operating a proprietary book, and the company's investments are mainly in long-term PSX shares with a valuation of ~PKR 12mln at end-Jun'23

Liquidity Profile The Company's current assets were ~PKR 4.8bln at end-Jun'23 and ~PKR 760mln at end-Jun'22 (CY22: ~PKR 733mln). Furthermore, current liabilities were ~PKR 4.5bln at end jun'23 and ~PKR 537mln at end-Jun'22 (CY22: ~PKR 509.8mln).

Financial Risk At end-Jun'23, the Liquid Capital Balance (LCB) of the Company stood at ~PKR 244mln and the Net Capital balance (NCB) stood at ~156mln. The Company has an equity base of ~PKR 409mln at end-Jun'23.



PKR mln

IGI Finex Securities Limited
Public Unlisted

Jun-23	Dec-22	Dec-21	Dec-20
6M	12M	12M	12M

A BALANCE SHEET

1 Finances	21	7	3	0
2 Investments	12	13	22	24
3 Other Earning Assets	220	210	256	305
4 Non-Earning Assets	4,727	627	1,035	826
5 Non-Performing Finances-net	0	14	0	0
Total Assets	4,980	871	1,317	1,154
6 Funding	8	9	2	0
7 Other Liabilities (Non-Interest Bearing)	4,562	535	987	838
Total Liabilities	4,570	544	989	838
Equity	409	327	328	316

B INCOME STATEMENT

1 Fee Based Income	55	128	292	226
2 Operating Expenses	(83)	(183)	(224)	(174)
3 Non Fee Based Income	151	66	34	1
Total Operating Income/(Loss)	123	12	102	53
4 Financial Charges	(1)	(2)	(1)	(1)
Pre-Tax Profit	122	10	101	52
5 Taxes	(36)	(1)	(32)	(16)
Profit After Tax	86	10	69	36

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	1%	15%	1%	1%
Return on Equity (ROE)	47%	3%	21%	11%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	8%	38%	25%	27%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	-62.53	-33.52	76.85	42.74

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	1%	0%	6%	3%
Liquid Assets / Trade Related Liabilities	1%	1%	9%	5%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	1%	0%	8%	4%
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
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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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

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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).
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- (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 | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

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