



The Pakistan Credit Rating Agency Limited

Rating Report

IGI Finex Securities Limited | BMR

Report Contents

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

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Aug-2024	BMR2+	-	Stable	Maintain	-
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') has a sustained position in the brokerage space. Since October 2023, the PSX volumes have picked up with the index reaching historic highs due to renewed investor interest and improving macro-economic indicators. Thus, the brokerage industry experienced enhanced topline and profitability during FY24. Continued investor interest remains dependent on further improvement in macro-economic indicators and stability on the political front during FY25. The ratings incorporate the business acumen and financial strength of the sponsoring group. The assigned rating takes into account a sound ownership structure. The governance structure is considered adequate with the presence of two non-executive directors and board-level committees well-noted. Inclusion of an independent director would strengthen the governance framework further. 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. 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 49mln during 1QCY24 (SPLY: ~PKR 21mln), wherein the incline is in-line with the pick in market volumes. IGI supported its operations through interest income earned on savings account of ~PKR 96mln to generate a profit of ~PKR 70mln during 1QCY24 (SPLY: ~PKR 0.045mln). The Company's equity base stood at ~PKR 696mln at end-Mar'24 with a Liquid Capital Balance of ~PKR 512mln.

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(Nov-23)
Related Research	Sector Study Brokerage & Securities(Jan-24)
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Ownership

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

Stability IGI Holdings, the parent company has investments totaling PKR 16 billion in subsidiaries and equity instruments as of end-Jun 24.

Business Acumen For more than 50 years, IGI and Packages group have maintained a stable presence in the industrial and services sectors, earning recognition as two of the top industrial players in fields like paper and technology-packaging, paperboard, financial services, real estate and public education.

Financial Strength The major shareholdings of the sponsors are concentrated in two main companies, IGI Holdings and Packages Limited.

Governance

Board Structure The Company's Board of Directors (BOD) comprised of four members, including the CEO and Chairman. Among them, two directors are executives and two directors are non-executives.

Members' Profile The board possesses the necessary skills and a strong members profile. The board members possess a diversified background of the finance and capital market while also having an experience in corporate sector.

Board Effectiveness To ensure the best corporate governance practices, the company has formulated three board committees, namely Audit Committee, HR & remuneration committee and IT Steering committee.

Financial Transparency IGI has outsourced its internal audit function to LV Ford Rhodes Chartered Accountants and appointed A.I. Ferguson & CO. Chartered Accountants as the external auditor. The external auditors of the company are classified in the "A" category of State Bank of Pakistan panel of Auditors.

Management

Management Team The management team is led by CEO Mr. Syed Raza Hussain Rizvi. The team 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 the priority of 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, a complaint management department is responsible for addressing and resolving customer complaints. The Compliance Department oversees this department, maintaining records of all complaints. Periodic reports are submitted to SECP, as per Security 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 SOP's.

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 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 75k mark for the first-time during May'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 cut at the start of FY25 shall give rise to fresh buying as investors shift the focus from fixed-income to the equity market. While FY24 shall have good results for the brokerage industry, political and economic stability are key factors to uphold investor interest during FY25.

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 IGI Finex operating revenue is mainly concentrated on equity brokerage, commodity brokerage, and financial income on saving deposits. During 2QCY24, the Company enhanced its topline diversity through the addition of advisory income. In 1QCY24, equity brokerage revenue increased to PKR ~49million compared to PKR ~21million in SPLY and in CY23, the equity brokerage revenue stood at PKR~159m as compare to PKR~121m SPLY. Whereas, during CY23, the company reported a net profit of PKR 306million (SPLY PKR 9million) and in 1QCY24, the net profit stood at PKR~70m as compare to PKR 0.045m SPLY. Net profitability increased due to interest income earned through saving deposits and high securities market exposure.

Financial Sustainability

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

Market Risk Market risk is mitigated by not operating a proprietary book and the company investments are mainly in long term PSX shares with a valuation of PKR 21m end-Mar 24.

Liquidity Profile IGI Fines has good liquidity profile. The company reported current assets of PKR ~2761m as at end-Mar 24 as compared to the current liabilities of ~PKR 2212m.

Financial Risk As at end Mar-24, the Liquid Capital Balance of the company stood at PKR 512m. The company has an equity base of PKR 696m as at end Mar-24 .



PKR mln

**IGI Finex Securities Limited
Private Limited**

Mar-24	Dec-23	Dec-22	Dec-21
3M	12M	12M	12M
Management	Audited	Audited	Audited

A BALANCE SHEET

1 Finances	19	23	7	3
2 Investments	115	111	13	22
3 Other Earning Assets	2,286	3,262	604	1,011
4 Non-Earning Assets	910	721	233	280
5 Non-Performing Finances-net	(414)	(414)	14	-
Total Assets	2,916	3,703	871	1,317
6 Funding	2,172	3,009	429	862
7 Other Liabilities (Non-Interest Bearing)	47	66	115	127
Total Liabilities	2,219	3,075	544	989
Equity	697	629	327	328

B INCOME STATEMENT

1 Fee Based Income	49	159	128	292
2 Operating Expenses	(56)	(220)	(183)	(224)
3 Non Fee Based Income	107	464	66	34
Total Operating Income/(Loss)	100	403	12	102
4 Financial Charges	(1)	(3)	(2)	(1)
Pre-Tax Profit	99	401	10	101
5 Taxes	(29)	(94)	(1)	(32)
Profit After Tax	70	307	10	69

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	0.7%	0.7%	15.0%	0.7%
Return on Equity (ROE)	140.8%	244.6%	4.0%	23.5%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	71.2%	78.4%	72.7%	59.7%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current M	-1314.7%	35641.9%	3352.1%	-7684.6%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	10.3%	11.8%	0.0%	12.2%
Liquid Assets / Trade Related Liabilities	4.7%	3.2%	0.0%	7.8%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers	0.0%	0.0%	0.0%	7.8%
Equity Instruments / Investments	0.0%	0.0%	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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(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).
- (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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