



The Pakistan Credit Rating Agency Limited

## Rating Report

### IGI Securities Limited | BMR

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
15-Oct-2021	BMR2+	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

IGI Securities Limited ("IGI" or the "Company") is a wholly owned subsidiary of IGI Holdings Limited. IGI's competitive edge lies in its distinct corporate culture and client centric approach. The assigned rating reflects IGI's association with a well-established group and dominant player "Ali Group" in the industrial and services arena. The assigned rating is complemented by IGI's adequate market share, well-built governance structure and satisfactory operating profitability. IGI's team comprised of experienced and well trained staff supported by qualified research team with wide coverage of economy and all major sectors as well as state-of-the-art web and mobile trading. Appointment of 'A' category external auditors and establishment of two board level committees augurs well for insightful monitoring. Internal audit function of the Company is outsourced which further strengthen the independent insight. IGI serves clients all across the spectrum comprising local and foreign institutions, corporate, high net worth and retail investors from its offices in six different cities. Formulation of employee confidentiality agreement, insider trading guidelines, conflict of interest policy along with KYC and CDD policies results in strong internal control and regulatory compliance. The topline of IGI is concentrated to the equity brokerage income which puts constraint on rating. The Company is not running any proprietary book hence, not exposed to market risk. Leverage free capital structure and sizable liquid assets against trade related liabilities provide further support to rating. The Net Capital Balance of IGI clocked in at ~PKR 135mln with an equity base of ~PKR 363mln at end-Jun'21. While the equity brokerage income clocked in at ~PKR 176mln for 1HCY21 (1HCY20: ~PKR 67mln). The Company earned profit amounting to ~PKR 60mln during 1HCY21 (1HCY20: ~PKR 19mln) on the back of improved brokerage income amid growth in average volumes during CY21.

The ratings are dependent on the management's ability to maintain and enhance its market share to improve its competitive position in the brokerage industry. Retention of key personnel, improved performance indicators, leverage free capital structure, continued improvement in customer servicing tools, and maintaining adequate controls will remain critical.

#### Disclosure

<b>Name of Rated Entity</b>	IGI Securities Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	Methodology   Broker Management Rating(Jul-21)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-21)
<b>Rating Analysts</b>	Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504



### Ownership

**Ownership Structure** IGI Securities Limited ("IGI" or the "Company") is a wholly owned subsidiary of IGI Holdings Limited. IGI Holdings Limited is an investment holding company listed on PSX with strategic investments mainly in the financial sector. IGI Holdings Limited has four subsidiaries namely IGI Life Insurance (82.7%), IGI General Insurance (100%), IGI Investments (100%) and IGI Securities Limited (100%).

**Stability** Major ownership of IGI Holdings (~72%) vests with Packages Group through sponsors (~32%) and associated entities (~40%).

**Business Acumen** IGI Holdings and Packages Group which falls under the umbrella of "Ali Group" are ranked amongst the leading industrial groups of the country with diversified interests in paper and paperboard, packaging, financial institutions, food, personal care and real estate sectors. Strong affiliation and technical track record with international JV's have added to the success of companies within the Group.

**Financial Strength** Major shareholding of the Sponsors is consolidated in two main companies; IGI Holdings and Packages Limited. Based on their respective consolidated financial statements for 1QCY21, these two have a collective asset base of ~PKR 100bln, with an equity base of ~PKR 56bln.

### Governance

**Board Structure** The Company has three (2HCY21) directors on board including CEO and chairman (1HCY21: five). All the directors are executive except the Chairman and possess manifold experience in relevant fields.

**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 Pakistan Environmental Health (Pvt.) Limited.

**Board Effectiveness** 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. The audit and HR & remuneration committees are chaired by chairman of board while IT Steering committee is being chaired by CEO, Mr. Syed Raza Hussain Rizvi.

**Financial Transparency** IGI has outsourced the internal audit function to EY Ford Rhodes Chartered Accountants and has appointed A.F.Ferguson & Co. Chartered Accountants as the external auditor. The auditor issued an unqualified opinion on the Company's financial statements for CY20.

### Management

**Management Team** The CEO, Mr. Syed Raza Hussain Rizvi brings across over eighteen years of diversified experience in the fields of Management, Corporate Strategy, Business Development, Mergers & Acquisitions, Capital Markets, Financial / Treasury Management, Corporate Governance and Implementation of Best Practices.

**Organizational Structure** IGI has a multi-tier functional organization structure, consisting of following departments, i) Finance, ii) Internal audit, iii) Risk Management & Compliance, iv) IT, v) Equity operations, vi) Research, vii) Institutional sales, viii) Online trading, and, ix) Commodity trading and x) Human Resource. Heads of departments report directly to the CEO.

**Client Servicing** The Company has complete integration with PSX's digital account opening forms. Similarly, various channels, including a mobile app, are available to customers to execute and monitor their transactions. The Company has strong client reporting mechanism with account statements and market reports communicated to the clients on regular basis.

**Complaint Management** The Compliance Officer is responsible for handling and rectification of complains and for maintaining a record of all the customer complaints. The prime task of the department is to submit a quarterly report (as per Securities broker regulation 2016) to SECP regarding number of complaints received, resolved and unresolved with the reasons thereof for pending complains beyond three months

**Extent Of Automation / Integration** The Company's database platforms are fully integrated between back and front office. The system has the ability to generate real time MIS reports.

**Continuity Of Operations** The Company has a detailed disaster recovery plan to ensure the business continuity at the time of disaster. Backup frequency is formulated according to the type of backup required (full, partial, incremental, differential, and real-time).

**Risk Management Framework** A well formulated risk management policy is implemented throughout the Company, to provide trading services. The Company has a separate risk management department with a designated Risk Manager who reports directly to the CEO. The board is responsible for developing and monitoring the risk management policies of IGI Securities. Management has established code of conduct and trading hall SOPs, to identify and monitor potential risks at operational level.

**Regulatory Compliance** Risk Management & Compliance Department ensures that all the regulatory requirements have been fulfilled.

### Business Sustainability

**Business Risk** PSX staged a phenomenal recovery in FY21 as the KSE-100 Index rose by 37% during the period. The growth came at the back of swift monetary and fiscal policy response, the success of the micro-lockdown strategy, robust remittances growth, and leverage reforms. Average traded volume attained the highest ever level at 528mln shares in FY21 (up by 169% from 196mln shares in FY20) while average traded value during the year went up by 163% year-on-year basis to \$120 million. Going forward, the delta variant poses a threat to the rising trend; however, the index is expected to recover as the COVID-19 vaccination reach record levels. Concern over pandemic is likely to reduce while improvement in economic activity is likely to accelerate globally as well as locally in the medium term.

**Business Profile** With its head office based in Karachi, the Company is primarily involved in the provision of equity brokerage services. The Company operates with six branches across the country.

**Revenue And Profitability Analysis** The Company's total revenues are supplemented by profits on savings accounts and exposure deposit but operating revenue mainly concentrated to equity brokerage. During 1HCY21 the equity brokerage revenue increased by ~1.6x to PKR 176mln (1HCY20 ~PKR 67mln). The Company reported net profit of PKR ~60mln in 1HCY21 compared to a profit of ~PKR 19mln in 1HCY20.

### Financial Sustainability

**Credit Risk** For the assessment of client's credit worthiness, the Company has formulated detailed KYC/CDD policies. Limits have been defined, which are strictly monitored. At end-CY20, trade debts have depicted a declining trend and stood at ~PKR 32mln (CY19 ~PKR 123mln).

**Market Risk** The Company is not running proprietary book, hence not exposed to market risk. The only investments in books of accounts are long term investments in PSX shares.

**Liquidity Profile** The Company's liquid profile is considered adequate as the current assets stood at ~PKR 1,163mln at end-Jun'21 as compared to current liabilities of ~PKR 924mln.

**Financial Risk** At end-Jun'21, the Net Capital Balance (NCB) of the Company stood at ~PKR 135mln, which allows the Company to take exposure up to 25x of its NCB. The Company has an equity base of ~PKR 363mln at end-Jun'21 (Dec'20: ~PKR 316mln).



**IGI Securities Limited**  
Public Unlisted

Dec-20	Dec-19	Dec-18
12M	12M	12M

**A BALANCE SHEET**

1 Finances	-	-	-
2 Investments	24	20	22
3 Other Earning Assets	288	158	165
4 Non-Earning Assets	843	678	449
5 Non-Performing Finances-net	-	-	-
<b>Total Assets</b>	<b>1,155</b>	<b>856</b>	<b>635</b>
6 Funding	754	469	291
7 Other Liabilities (Non-Interest Bearing)	84	110	79
<b>Total Liabilities</b>	<b>838</b>	<b>580</b>	<b>370</b>
<b>Equity</b>	<b>316</b>	<b>277</b>	<b>265</b>

**B INCOME STATEMENT**

1 Fee Based Income	190	99	91
2 Operating Expenses	(174)	(122)	(133)
3 Non Fee Based Income	36	33	20
<b>Total Operating Income/(Loss)</b>	<b>53</b>	<b>10</b>	<b>(23)</b>
4 Financial Charges	(1)	(1)	(1)
<b>Pre-Tax Profit</b>	<b>52</b>	<b>10</b>	<b>(24)</b>
5 Taxes	(16)	4	(6)
<b>Profit After Tax</b>	<b>36</b>	<b>13</b>	<b>(29)</b>

**C RATIO ANALYSIS**

**1 Cost Structure**

Financial Charges / Total Operating Income/(Loss)	1.2%	7.0%	-2.6%
Return on Equity (ROE)	15.5%	7.2%	-13.5%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	27.4%	32.3%	41.8%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	41.77	-31.27	-85.94

**3 Liquidity**

Liquid Assets / Total Assets (D+E+F)	5.5%	19.7%	15.9%
Liquid Assets / Trade Related Liabilities	8.5%	35.9%	34.8%

**4 Credit & Market Risk**

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	4.3%	26.3%	20.1%
Equity Instruments / Investments	0.0%	0.0%	0.0%

## Broker Management Rating

An independent opinion on the quality of management and services provided by the 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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- (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.
- (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 | 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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