



The Pakistan Credit Rating Agency Limited

Rating Report

Dr. Arslan Razaque Securities (Pvt.) Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
22-Mar-2024	BFR 3	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	Majority ownership vests with Dr. Arslan Razaque (99.98%). The ownership factor is considered good due to the sound financial strength of the primary sponsor.
Governance	The BoD consists of Dr. Arslan as an executive director, and his family members as non-executive directors. The structure of the board is congruent to the Company's business plans.
Management and Client Services	Management and client services of the Company are in-line with the Company's size and focus towards proprietary investment book. The Company's strategy to focus on retail customers in the future may lead to an improvement of client services.
Internal Controls and Regulatory Compliance	Regulatory compliances are overseen by a head of compliance. Internal controls are strengthened with the presence of an internal auditor. Whereas having better formed policies and internal procedures may improve control environment further.
Business Sustainability	The Company has a minimal presence in the brokerage space through market connections of the primary sponsor; however, effective management of its proprietary investment book and exposure in leveraged products resulted in net profitability during FY23.
Financial Sustainability	Liquidity indicators are considered adequate, with minimal credit risk exposure on the books; however, proprietary book exposes the Company to market risk. The Company has a low-leveraged capital structure with the equity base standing at a modest level of ~PKR 89mln at end-Jun'23.

Key Rating Drivers

Dr. Arslan Razaque Securities (Pvt.) Limited (the 'Company') has a focused approach to managing its brokerage operations. The CEO, Dr. Arslan Razaque, effectively oversees proprietary investment portfolio resulting in consistent realized gains. Moving forward, improvement in organizational structure and client services may be needed due to the Company's strategy to focus on retail customers. Meanwhile, topline diversification and profit sustainability remains vital.

Disclosure

Name of Rated Entity	Dr. Arslan Razaque Securities (Pvt.) Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Assessment Framework Broker Fiduciary Rating(Jan-24)
Related Research	Sector Study Brokerage & Securities(Jan-24)
Rating Analysts	Hassaan Ahmad Hassaan.Ahmad@pacra.com +92-42-35869504

Profile

Background Dr. Arslan Razaque Securities (Pvt.) Limited (the 'Company' or 'DARPL') is a licensed TREC member of the Pakistan Stock Exchange and a member of the Pakistan Mercantile Exchange Limited, and was incorporated in 2006 under the repealed Companies Ordinance, 1984.

Operations The company is engaged in equity brokerage and leveraged products (MFS/MTS). The clientele of the company is segmented is mainly the family and friends of Dr. Arslan Razaque.

Ownership

Ownership Structure Dr. Arslan Razaque is the primary sponsor and owner of DARPL with a 99.98% shareholding of the Company. The wife and brother of Mr. Arslan, Mrs. Rabia, and Mr. Ali Razaque, each own 0.01% of ownership respectively.

Stability Mr. Arslan has been involved with the capital markets for over 20 years, and has a keen interest in the market. There is no written shareholding agreement or succession plan in place, therefore stability may be considered on the weaker side.

Business Acumen The primary sponsor has developed a keen insight into the capital markets with his years of experience.

Financial Strength The sponsor has good financial strength and may inject equity into the business with an increasing quantum of operations. Mr. Arslan is comfortable with injecting equity if the need arises, showcasing his adequate financial strength and his support to the business.

Governance

Board Structure The board of directors (BoD) of DARPL comprises three board members with two non-executive directors. One is the CEO, Mr. Arslan, while the other is his wife Mrs. Rabia and his brother Mr. Ali Razaque.

Members' Profile Mr. Arslan is a certified M.B.B.S. doctor, having decades of specialized medical experience along his capital markets experience. Whereas Mr. Ali Razaque is also a certified M.B.B.S. doctor and has done his Post-Graduation from London School of Economics UK and Harvard USA. Mr. Ali has a decorated career and has served as Regional Adviser United Nations (UNAIDS), in Cairo, Egypt.

Board Effectiveness Currently, no BOD committees are present at the company. However, the presence of BOD-level committees will provide an oversight to the overall performance of the Company.

Financial IECnet S.K.S.S.S Chartered Accountants are the external auditors of the Company and are in the 'B' category on SBP's panel of auditors. The auditors have expressed an unqualified opinion for the financial statements of FY23. The Company also has an internal audit function to enhance the control framework.

Management And Client Services

Organizational Structure The Company has a lean organizational structure in place, where all departmental heads report to the CEO. The main departments of DARPL include, i) Accounts & Finance, ii) Compliance, iii) Internal Audit, and iv) Marketing. The CEO himself directly performs proprietary investment functions.

Management Team The management team has adequate exposure to the capital markets. The departmental head has had at most 5-6 years with the Company. The senior management is adequately qualified.

Client Servicing The Company offers adequate client servicing along with providing limited trading insights to its clients.

Complaint Management The Company has established compliant policies and effectively monitors them. Complaints can be lodged via email, SMS and calls.

Extent Of Automation / Integration The Company has streamlined its operations through limited ERP deployment. DARPL generates reports at day-end for monitoring.

Continuity Of Operations DARPL has a detailed disaster recovery plan to ensure business continuity at the time of disaster. Moreover, backups are also performed on a daily basis with a separate server present outside the office premises.

Internal Controls And Regulatory Compliance

Risk Management Framework At the moment risk management doesn't exist whereas an internal audit function exists. The BOD of the company actively drives the risk management framework wherein it provides an active approach in dealing with factors that influence the financial health of the company. Moreover, the audit committee is chaired by the CEO, resulting in limited control effectiveness.

Regulatory Compliance The head of compliance ensures regular monitoring of controls and systems, therefore ascertaining that all functions are in line with the applicable policies and procedures.

Business Sustainability

Operating Environment FY23 had 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 longstanding economic issues such as the reduction of circular debt has boosted the market volumes, with KSE-100 Index surging to historic highs. That being said, political stability with the new government holds key importance for upcoming investor interest.

Performance The Company has shown limited growth in the top line over the recent years, with losses prevailing due to subdued market interest in FY22. However, in FY23, the company has shown improved performance compared to FY22, albeit with minor profits. The Company earned brokerage income of ~PKR 0.4mln during FY23 (SPLY: ~PKR 0.03mln) whereas suffered from a loss on net realized and unrealized on proprietary investments of ~PKR 6.4mln during FY23 (SPLY: loss of ~PKR 13.9mln). Despite limited revenue, DARPL managed to achieve a minor profit after tax due to income generated from leveraged products of ~PKR 1.3mln during FY23, compared with a loss of PKR 11.7mln in the same period last year.

Strategy DARPL plans to keep focusing on retail customers, while also enhancing its presence within corporate clientele. The Company also plans to place incentivized traders in the house and tapping international customers for which the CEO visited USA, indicating possible growth in the topline.

Financial Sustainability

Credit Risk Credit risk generally arises from two types of transactions. Transactions that are settled within T+2 framework and that are settled beyond T+2 framework. T+2 transactions carry relatively less credit risk. The second transaction exposes the company towards higher credit risk. The risk arises in case of adverse price movement of scrip along with a client's refusal to honor commitment. DARPL has limited customers and the trade debts amounted to just ~PKR 46k at end-Jun'23, decreasing from ~PKR 0.6mln at end-Jun'22, resulting in negligible credit risk.

Market Risk Market risk emanates from decrease in the value of an investment, due to adverse moves in market and market factors. Volatility frequently refers to the standard deviation of the change in value of a financial instrument with a specific time horizon. DARPL maintains a significant proprietary book amounting to ~PKR 43mln at end-Jun'23. The proprietary investment exposes the bottom-line of the Company to market fluctuations. In this regard, DARPL's CEO Mr. Arslan himself controls and manages the proprietary investments, effectively managing investments on a timely basis according to market conditions.

Liquidity Risk DARPL has an adequate liquidity profile, with current assets standing at ~PKR 114mln at end-Jun'23 compared to ~PKR 59mln of current liabilities on the same date.

Capitalization The Company operates on a low-leveraged capital structure, aiming to limit its borrowings at all times. On the other hand, the equity base of DARPL stood at ~PKR 89mln at end-Jun'23.

Dr. Arslan Razaque Securities (Pvt.) Limited
Jun-23
Jun-22
Jun-21
12M
12M
12M
A BALANCE SHEET

1 Finances	50	48	-
2 Investments	56	64	68
3 Other Earning Assets	2	1	1
4 Non-Earning Assets	39	31	43
5 Non-Performing Finances-net	-	-	-
Total Assets	147	144	112
6 Funding	56	45	-
7 Other Liabilities (Non-Interest Bearing)	3	1	1
Total Liabilities	59	46	1
Equity	89	98	110

B INCOME STATEMENT

1 Fee Based Income	0	0	0
2 Operating Expenses	(6)	(3)	(2)
3 Non Fee Based Income	8	(8)	18
Total Operating Income/(Loss)	2	(11)	16
4 Financial Charges	(0)	(0)	(0)
Pre-Tax Profit	2	(11)	16
5 Taxes	(1)	(1)	(0)
Profit After Tax	1	(12)	16

C RATIO ANALYSIS
1 Business Sustainability

Pre Tax Margin	430.9%	-38219.9%	29702.9%
EBITDA/ Revenue	461.9%	-37690.0%	30033.3%
Profit / (Loss) Before Interest & Taxes / Total Assets	1.3%	-7.7%	14.6%

2 Financial Sustainability

Total Investments / Equity	63.2%	65.7%	61.5%
NCB / Equity	56.0%	46.2%	54.0%
LCB/ Total Equity	53.6%	46.2%	54.0%
(Cash & Cash Equivalents + Government Securities) / Total Assets	13.5%	7.3%	20.8%
Total Debt / Equity	62.8%	46.0%	0.0%

Broker Fiduciary Rating Scale & Definitions

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

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

<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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- 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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- (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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