



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
21-Mar-2025	BFR 3	Stable	Maintain	-
22-Mar-2024	BFR 3	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	Dr. Arslan Razaque holds the majority ownership of the Company, with a stake of 99.98%. This ownership structure is viewed positively due to the strong financial position of the primary sponsor.
Governance	The Board of Directors (BoD) of DARPL comprises three members: CEO Mr. Arslan Razaque, his wife Mrs. Rabia Razaque, and his brother Mr. Ali Razaque. In the future, the inclusion of an independent director may enhance the oversight and governance of the Company.
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 limited presence in the brokerage sector, primarily leveraging the market connections of its primary sponsor. Nevertheless, the effective management of its proprietary investment portfolio and exposure to leveraged products contributed to net profitability during the 1HFY25.
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 ~PKR 163mln at end-Dec'24.

Key Rating Drivers

Dr. Arslan Razaque Securities (Pvt.) Limited ('DARPL' or 'the Company') adopts a strategic approach to managing its brokerage operations. Under the leadership of CEO Dr. Arslan Razaque, the Company effectively manages its proprietary investment portfolio, resulting in consistent realized gains. Going forward, enhancements in the organizational structure and client services may be required, particularly as the Company shifts its focus towards retail customers. At the same time, diversifying the topline and ensuring long-term profitability remain critical priorities.

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-25)
Related Research	Sector Study Brokerage Firms(Feb-25)
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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 PostGraduation 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 Amin Mudassir & Co. 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 FY24. The Company maintains an internal audit function to strengthen its control framework, which is chaired by Mr. Syed Nauman Ali Shah and reports directly to the CEO.

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, with each department being led by experienced professionals. Mr. Muhammad Saeed oversees compliance, while Mr. Faizan Arslan serves as the General Manager of the Marketing Department. Mr. Matloob Ahmad manages the Accounts Department, and Ms. Sana Shehzad Ali holds the position of Human Resources Manager, ensuring the effective management of the company's human capital. Additionally, Mr. Amir Saeed is part of the team, holding the position of KATS Operator (Trading).

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 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

The Company has experienced limited growth in its top line in recent years. During the first half of FY25, the Company earned brokerage income of ~PKR 0.24 million. Additionally, the top line shows a decrease due to less capital gain on marketable securities amounting to ~PKR 9mln(Jun'24: ~PKR 13mln). As of December 2024, the Company reported a net profit of ~PKR 43mln (compared to ~PKR 32mln in June 2024). The primary contributor to this increase was other income, which totaled ~PKR 42mln. This other income includes gains from re-measurement at fair value and interest income.

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 0.9 at end-Dec'24, 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 75mln at end-Dec'24. 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 188mln at end-Dec'24 compared to ~PKR 72mln 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 163mln at end-Dec'24.

BALANCE SHEET				
1 FINANCES	100.93	85.55	50.40	47.84
2 INVESTMENTS	89.51	73.32	56.02	64.26
3 OTHER EARNING ASSETS	2.18	0.33	0.96	0.57
4 NON-EARNING ASSETS	43.04	44.34	39.79	31.01
5 NON-PERFORMING FINANCES-net	-	-	-	-
TOTAL ASSETS	235.66	203.54	147.17	143.68
6 FUNDING	68.65	62.65	55.65	45.00
7 OTHER LIABILITIES (NON-INTEREST BEARING)	4.43	20.86	2.85	1.30
TOTAL LIABILITIES	73.08	83.51	58.50	46.30
TOTAL EQUITY	162.57	120.03	88.67	97.75

INCOME STATEMENT				
INCOME				
1 FEE BASED INCOME	0.24	0.50	0.51	0.28
2 OPERATING EXPENSES	(9.48)	(15.13)	(6.09)	(3.13)
3 NON-FEE BASED INCOME	21.90	18.94	(2.83)	(9.62)
TOTAL OPERATING INCOME (LOSS)	12.66	4.32	(8.41)	(12.47)
4 FINANCIAL CHARGES	(0.01)	(0.01)	(0.01)	(0.01)
PRE-TAX PROFIT	42.54	36.25	1.95	(11.10)
5 TAXES	-	(4.10)	(0.59)	(0.63)
PROFIT AFTER TAX	42.54	32.15	1.36	(11.73)

RATIOS				
BUSINESS SUSTAINABILITY				
1 PRE-TAX MARGIN	174.79	71.80	4.36	(383.07)
2 EBITDA MARGIN	174.83	71.83	4.38	(382.89)
3 EBIT RETURN ON ASSETS	0.36	0.21	0.01	(0.09)

FINANCIAL SUSTAINABILITY				
1 TOTAL INVESTMENTS / EQUITY	0.55	0.61	0.63	0.66
2 LIQUID CAPITAL BALANCE (LCB) / EQUITY	0.53	0.65	0.54	0.46
3 (CASH, CASH EQUIVALENTS & GOVERNMENT SECURITIES) / TOTAL ASSETS	0.41	0.43	0.43	0.35
4 TOTAL DEBT / TOTAL ASSETS	0.29	0.31	0.38	0.31

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 a very high likelihood of sustaining operations.
BFR 2++ BFR 2+ BFR 2	Strong. Strong quality of management and client services and a high likelihood of sustaining operations.
BFR 3++ BFR 3+ BFR 3	Good. Good quality of management and client services and an above average likelihood of sustaining operations.
BFR 4++ BFR 4+ BFR 4	Adequate. Adequate quality of management and client services and an average likelihood of sustaining operations.
BFR 5	Weak. Weak quality of management and client services and a 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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(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

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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 | 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 | 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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