



The Pakistan Credit Rating Agency Limited

Rating Report

KTRADE Securities Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
12-May-2022	BFR 3++	Stable	Upgrade	-
26-May-2021	BFR 3+	Stable	Initial	-

Rating Rationale	Factor	Comment
	Ownership	Major Shareholding of the Company is vested with Oxford Frontier Capital Limited.
	Governance	The Board is comprised of three members all of whom are family members. The Company is in the process to further enhance the governance framework.
	Management and Client Services	Management team is well experienced while integration of technology into the systems results in efficient reporting mechanism and customer satisfaction.
	Internal Controls and Regulatory Compliance	Outsourcing of internal audit and separation of compliance and risk department is considered positive.
	Business Sustainability	The Company registered a considerable growth amidst augmentation in client base; however, significant dependence on equity brokerage income is a constraint.
	Financial Sustainability	The Company is not engaged in proprietary trading which limits the market risk. Leverage free capital structure provides support to the rating.

Key Rating Drivers

The rating upgrade signifies the improving position of KTrade Securities Limited (Ktrade) in the brokerage industry. A strong internal control framework emanating from outsourced internal audit and independent risk management function provides comfort. The management team consists of seasoned professionals providing the clients with state-of-the-art services such as, online trading, mobile-app and up-to-date research reports. A dedicated customer service department is also present for client facilitation. The benchmark app 'KTRADE' has a user-friendly interface and it is one the most used app of financial industry. The rating accounts for the strong sponsors' profile and an adequate governance structure which may be enhanced further. The assigned rating is supported by immense growth in brokerage revenue over the years amid increased client base. The topline is concentrated to commission on equity brokerage; however, the Company has diversified its product base to augment the revenue stream. The equity has shown considerable improvement during the period under review with a leverage free capital structure. The expansion strategy is materializing where the Company has opened new branches in various cities and has increased the head count accordingly. The ratings are dependent on the management's ability to strengthen revenue base by augmenting consultancy and advisory services. Improvement in market share and sustaining profitability from core operations remains critical.

Disclosure

Name of Rated Entity	KTRADE Securities Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology Broker Fiduciary Rating(Jan-21)
Related Research	Sector Study Brokerage & Securities(Jan-22)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504

Profile

Background: KTrade Securities Limited (“KTrade” or “The Company”) is a TREC Holder of the Pakistan Stock Exchange. It is regulated and authorized by the Securities and Exchange Commission of Pakistan (SECP) and the Pakistan Stock Exchange (PSX). The company is a part of the KASB Group, which is the oldest capital markets business in Pakistan. The KASB Group was established in 1952 by Mr. Khadim Ali Shah Bukhari.

Operations: The Company is primarily engaged in brokerage business and generates revenue from brokerage Income. The Company also provides advisory services, research services to foreign companies and is also involved in Margin Financing Services.

Ownership

Ownership Structure: Currently, ~58% ownership lies with Oxford Frontier Capital Limited while Mr. Mahmood Ali Shah Bukhari and Ms. Mubashira Bukhari holds ~15.6% and ~21% stake in the Company respectively.

Stability: Oxford Frontier Limited is the major shareholder of the Company whose majority shareholding lies with Mr. Ali Farid Khawaja. Oxford Frontier Capital Limited is providing equity support to KTrade to boost their growth.

Business Acumen: Mr. Mahmood Ali Shah is a seasoned professional with years of experience in equity research and investments. Mr. Mahmood Ali Shah Bukhari is a well experienced business man and has a BSc in Liberal Studies from University of Waterloo-Canada. Ms. Mubashira is CFA Charterholder, done MSc in Wealth Management from Singapore Management University and MSc in Economics from LUMS.

Financial Strength: The sponsors have sizeable net worth and are injecting capital in the Company with increasing quantum of operations. This also shows the sponsors commitment in case financial need arises

Governance

Board Structure: The Company has appointed three directors on the board including an independent director duly approved by PSX; however, room exists to increase the Board size for better governance,

Members’ Profile: All the directors are seasoned professionals and possess manifold experiences in the relevant fields. The board members are skilled and experienced to manage the business operations efficiently.

Board Effectiveness: To ensure an effective control environment and compliance with reporting standards, the Company has constituted three board committees: i) Audit Committee, ii) Risk Management Committee, and iii) Human Resource and Remuneration Committee.

Transparency: KTrade has recently appointed BDO Ebrahim Consulting and Co. Chartered Accountants as the external auditors which falls in the A category of the SBP’s panel of auditors. The previous auditors have expressed an unqualified opinion on the financial statements of KTrade for FY21.

Management and Client Services

Organizational Structure: The Company has a lean organizational structure where all Heads of the departments are directly reportable to the CEO. KTrade currently operates through 7 branches, with 4 in Karachi, 1 in Multan, 1 in Lahore and 1 in Islamabad. The main departments of the Company include: (i) Research, (ii) Sales, (iii) Customer Support, (iv) Compliance, (v) Risk Management, (vi) HR, and (vii) Finance

Management Team: The Company has a team of seasoned professionals. Mr. Saad Bin Ahmed is MD-Sales of the Company. He is a CA Finalist with years of relevant experience. Mr. Muzaffar Iqbal has over 10 years of relevant experience and is the current CFO of the Company. He is also a CA finalist and has CICA and CFRA certifications as well. Mr. Talha Azhar is a CFA and is currently the VP Corporate Finance of KTrade.

Client Servicing: The Company offers multiple account opening mediums including an online trading terminal, mobile-app and physical presence. The customized user-friendly mobile-app is considered a benchmark in the financial industry. A dedicated customer support department is available as well, while real-time reporting mechanism and a research department enhances the overall client service.

Internal Controls and Regulatory Compliance

Complaint Management: An adequate complaint management system is in place. Complaints can be made via e-mail, SMS, calls and website.

Extent of Automation / Integration: The front-end and back-end software's are installed with full integration and procured from SECP's approved vendors. The system has the ability to generate timely reports and incorporates primary and secondary level protection.

Continuity of Operations: KTrade has a detailed disaster recovery plan to ensure the business continuity at the time of disaster. Moreover, backups are maintained on daily basis.

Risk Management Framework: KTrade has established Risk Management Committee at board level for reviewing risk appetite, policies and controls put in place. The internal audit function which is instrumental in mitigating risk arising from operational failures is outsourced to Afras & Co.

Regulatory Compliance: Risk Management & Compliance Department ensures regular monitoring of controls and systems, which ensures all functions are in line with the applicable policies and procedures.

Business Sustainability

Operating Environment: Pakistan's economy during FY21 made a recovery, with the market volumes reaching historic high levels; however, during the first 10 months of FY22, the market volumes have decreased resulting in pressure on brokerage revenue. The rebalancing of MSCI gives an indication to a hopefully better upcoming quarter with expectations of greater international investment; however, the escalating tension and supply chain constraints due to the Russia and Ukraine war have destabilized the capital markets, creating an uncertain future for the market. The recent political turmoil inside the country have further derailed the market conditions, making it difficult to ascertain the future of the market moving forward.

Performance: KTrade earned operatin revenue of ~PKR 72mln for 1HFY22 (FY21: ~PKR 158mln). The loss after tax stood at ~PKR 47mln for 1HFY2 (FY21: profit of ~PKR 5mln). The operating revenue primarily emanates from commission on equity brokerage and while the income from corporate finance/advisory may provide support going forward. The loss is attributable to the increase in salaries and marketing expenses due to the Company's expansion strategy. The average market share on volume traded basis showed improvement from FY21 to 1HFY22.

Strategy: Going forward, KTrade plans to enhance its footprint in the retail universe. KTRADE is aggressively expanding its branch network for this purpose while they are also in the process of improving upon their client servicing through a business partnership with a micro-finance bank which will allow them to incorporate Mobile Wallet and Mobile Payments into their application.

Financial Sustainability

Credit Risk: The Company has developed its own risk management policies and guidelines whereby clients are provided trading limits according to their worth and proper margins are collected and maintained from the clients. The management continuously monitors the credit exposure towards the clients.

Market Risk: KTrade minimizes its market risk by not opting to trade through a proprietary book. They mainly invest in Government Securities for a stable return.

Liquidity Risk: At end-Dec'21, the current assets of ~PKR 717mln adequately covers the current liabilities of ~PKR 559mln.

Capitalization: KTrade has a strong capitalization level with regulatory Net Capital Balance (NCB) standing at ~PKR 424mln at end-Dec'21. The Company's equity stood at ~PKR 559mln at end-Dec'21.

PKR mln

Ktrade Securities Limited	Dec-21	Jun-21	Jun-20	Jun-19
	6M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	124	123	145	90
3 Other Earning Assets	298	224	79	1
4 Non-Earning Assets	391	516	368	161
5 Non-Performing Finances-net	-	-	-	-
Total Assets	814	863	592	252
6 Funding	-	-	-	29
7 Other Liabilities (Non-Interest Bearing)	255	357	316	49
Total Liabilities	255	357	316	78
Equity	559	506	263	174

B INCOME STATEMENT

1 Fee Based Income	72	159	45	12
2 Operating Expenses	(140)	(165)	(64)	(37)
3 Non Fee Based Income	21	16	28	18
Total Operating Income/(Loss)	(47)	10	9	(7)
4 Financial Charges	(0)	(0)	(0)	(0)
Pre-Tax Profit	(47)	9	9	(7)
5 Taxes	-	(4)	(3)	(4)
Profit After Tax	(47)	5	6	(11)

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	-65.3%	5.9%	20.1%	-57.7%
EBITDA/ Revenue	-65.2%	6.0%	20.1%	-57.3%
Profit / (Loss) Before Interest & Taxes / Total Assets	-5.8%	1.1%	1.5%	-2.8%

2 Financial Sustainability

Total Investments / Equity	22.2%	24.3%	55.1%	51.5%
NCB / Equity	75.8%	77.6%	75.3%	72.1%
LCB/ Total Equity	82.1%	80.0%	68.3%	21.0%
(Cash & Cash Equivalents + Government Securities) / Total Assets	85.0%	89.0%	80.5%	80.0%
Total Debt / Equity	0.0%	0.0%	0.0%	0.0%

Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management, client services and sustainability of operations

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