



The Pakistan Credit Rating Agency Limited

## Rating Report

### Ismail Iqbal Securities (Pvt.) Limited | BFR

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#### Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
04-Jun-2024	BFR 3+	Stable	Upgrade	-
13-Jun-2023	BFR 3	Stable	Maintain	-
13-Jun-2022	BFR 3	Stable	Initial	-

### Rating Rationale

Factor	Comment
<b>Ownership</b>	Mr. Ahfaz Mustafa holds the controlling stakes of the Company (~65%), while remaining shares are divided amongst family members. The strong business acumen of the primary sponsor enhances the ownership factor.
<b>Governance</b>	A two-member board of directors is present along with the existence of an Audit Committee. Expansion of board size and inclusion of independent directors would enhance the Governance framework.
<b>Management and Client Services</b>	A defined organizational structure is in place, with IISPL streamlining its departments to enhance operational efficiency during 9MFY24. An experienced management team is in place; however, segregation of roles amongst key management would improve client services.
<b>Internal Controls and Regulatory Compliance</b>	The Company has enhanced its control framework during 9MFY24 through the addition of an underwriting discipline. Policies and procedures are designed to ensure regulatory compliances. Internal control function may be improved by a dedicated departmental head.
<b>Business Sustainability</b>	The Company relies on equity brokerage as the primary source of revenue. In line with the market activity, the revenue has increased by ~86% to ~PKR 93mln during 9MFY24 as compared to ~PKR 50mln during SPLY. IISPL has diversified its topline through advisory and underwriting.
<b>Financial Sustainability</b>	The Company's streamlining of its organizational structure has improved its allocation of expenses, uplifting the profit after tax to ~PKR 149mln in 9MFY24 as compared to loss of ~PKR 47mln in SPLY. The Company's equity stood at ~PKR 337mln at end-Mar'24

### Key Rating Drivers

Ismail Iqbal Securities (Pvt.) Limited ('IISPL' or the 'Company') has strengthened its market presence by strategically targeting HNWI's and diversifying its product range, amplifying its reach. The primary sponsor's keen business insight led to major gains in proprietary investments during 9MFY24. Going forward, upholding top-line growth, revenue diversification, and sustainability of profitability are vital for sustained ratings.

#### Disclosure

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

## Profile

**Background** Ismail Iqbal Securities (Pvt.) Limited ('IISPL' or the Company), with its inception in the year 2004, became a Corporate Member of the Karachi Stock Exchange. IISPL is presently a TREC holder of the Pakistan Stock Exchange, as well as an SECP registered Underwriter and Book Runner.

**Operations** Ismail Iqbal Securities (Pvt.) Limited operates through two branches, both in Karachi. The Company deals in equity trading which is the primary source of revenue, while also engaging in the underwriting and advisory services. issues along with services of MTS/MFS.

## Ownership

**Ownership Structure** IISPL is a family-owned business and the stakes are being divided among family members where the majority of shareholding lies with Mr. Ahfaz Mustafa (65%). The remaining stake is held by his sister Ms. Ayesha Naseem and brother Mr. Azhar Iqbal (17.4% each) while Mr. Muhammad Taufique also holds one share.

**Stability** The ownership being concentrated to family enhances its stability, with succession planning also in place.

**Business Acumen** The Company's primary sponsor possesses relevant educational backgrounds and extensive industry-specific working knowledge. The overall assessment of the strategic thinking capability of sponsors is comfortable.

**Financial Strength** The main sponsor, Mr. Ahfaz Mustafa has a sizeable personal net worth along with a well-established and well-known family group.

## Governance

**Board Structure** The Company's board of directors comprises two experienced individuals including the CEO - Mr. Ahfaz Mustafa and a non-executive director - Mr. Muhammad Taufique. The presence of an independent director would strengthen the governance framework.

**Members' Profile** Both the directors are seasoned professionals and possess manifold experiences in the relevant fields. The board members are skilled and experienced to oversee the business operations efficiently.

**Board Effectiveness** To ensure an effective control environment and compliance with reporting standards, the Company has constituted an Audit Committee at the board level. The Committee is chaired by the non-executive director.

**Financial** Baker Tilly Mehmood Idrees Qamar is the external auditor and is ranked in the 'A' category in the State Bank's list of approved auditors. The auditor has expressed an unqualified opinion on IISPL's financial statements for FY23.

## Management And Client Services

**Organizational Structure** The Company has a lean organizational structure with the following departments, i) Finance, ii) Compliance, iii) IT, iv) Research, v) Business Development, and vi) Equity Sales. All HODs report directly to the CEO and the Company has created all requisite positions to ensure smooth operations. During 9MFY24 the Company has streamlined its organizational structure to enhance operational efficiency. Separation of functions such as compliance and risk management may bode well for IISPL moving forward.

**Management Team** Mr. Ahfaz Mustafa is the CEO of the Company since 2008. He has more than 15 years of experience in the equity market. The management team of the Company comprises seasoned professionals with considerable financial services sector experience.

**Client Servicing** The Company offers multiple account opening mediums. Similarly, various channels, including a mobile app, are available to customers to monitor their transactions. The Company has a strong client reporting mechanism with account statements and market reports communicated to the clients on a regular basis. IISPL has recently revamped the website by improving the user interface and providing dedicated sections for grievances and complaints, research data, links to different regulators, and more.

**Complaint Management** An adequate complaint management system is in place. Complaints can be made via e-mail, SMS, calls, and website. IISPL may consider implementing a ticket-based complaint management system with in-built tracking to cater the increase in clientele over time.

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

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

## Internal Controls And Regulatory Compliance

**Risk Management Framework** The Company has a qualified and experienced resource, Mr. Fazal Ur Rehman, as the head of Compliance to look after regulatory matters; however, he is also responsible for finance and risk management functions. Separation of these functions with a separate manager for each will be more in-line with the industry's best practices. IISPL may consider forming an internal audit department to further strengthen the control framework.

**Regulatory Compliance** The Compliance Department ensures regular monitoring of controls and systems, which validates all functions are in line with the applicable policies and procedures.

## Business Sustainability

**Operating Environment** 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.

**Performance** The Company's current market share stood at ~1.5% during 9MFY24. IISPL earned operating revenue of ~PKR 93mln during 9MFY24 (SPLY: ~PKR 50mln). The Company earned a profit after tax of ~PKR 149mln during 9MFY24 (SPLY: Loss of ~PKR 47mln).

**Strategy** Going forward, IISPL plans to continue focusing on capturing more HNWI and Corporate clients, with a plan to enhance their corporate advisory footprint in the near future.

## Financial Sustainability

**Credit Risk** The main credit risk for a brokerage company results from providing clients with margin facilities to trade through leverage. IISPL does not allow clients the facility of leveraged trading apart from a selected few clients with whom they have long-term relationships, thus limiting their credit risk exposure.

**Market Risk** As at Mar'24, the Company had short term investment portfolio of ~PKR 496mln (SPLY: ~PKR 196mln), which comprised quoted securities. Proprietary listed securities as compared to company's equity comprised ~138% at end Mar'24 (SPLY: ~99.92%). Trading in proprietary book creates conflict of interest, risk of front running and inherently bears market risk. The Company has formulated an investment policy to address the key issues like scrip level and sector level limits.

**Liquidity Risk** At end-Mar'24, the current assets of ~PKR 717mln adequately covers the current liabilities of ~PKR 409mln.

**Capitalization** The Company has an adequate equity base of ~PKR 337mln at end-Mar'24, increasing from ~PKR 196mln at end-Mar'23.

**THE PAKISTAN CREDIT RATING AGENCY**Ismail Iqbal Securities Pvt. Ltd.  
PRIVATE LIMITED  
FINANCIAL SUMMARY

FS PRINT MODE DISABLED

Mar-24 FY24 9M Management	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited	Jun-21 FY21 12M Audited
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**BALANCE SHEET**

1 FINANCES	-	-	-	-
2 INVESTMENTS	475.52	22.28	159.84	184.46
3 OTHER EARNING ASSETS	-	-	-	-
4 NON-EARNING ASSETS	272.58	299.98	398.31	495.63
5 NON-PERFORMING FINANCES-net	-	-	-	-
<b>TOTAL ASSETS</b>	<b>748.10</b>	<b>322.27</b>	<b>558.15</b>	<b>680.09</b>
6 FUNDING	215.65	5.43	5.05	5.26
7 OTHER LIABILITIES (NON-INTEREST BEARING)	195.01	128.84	235.73	277.84
<b>TOTAL LIABILITIES</b>	<b>410.65</b>	<b>134.27</b>	<b>240.78</b>	<b>283.10</b>
<b>TOTAL EQUITY</b>	<b>337.44</b>	<b>188.00</b>	<b>243.52</b>	<b>322.49</b>

**INCOME STATEMENT**

INCOME				
1 FEE BASED INCOME	101.72	63.89	93.49	160.09
2 OPERATING EXPENSES	(63.21)	(83.52)	(72.96)	(72.31)
3 NON-FEE BASED INCOME	127.03	(10.67)	(51.95)	42.54
<b>TOTAL OPERATING INCOME (LOSS)</b>	<b>165.53</b>	<b>(30.30)</b>	<b>(31.42)</b>	<b>130.33</b>
4 FINANCIAL CHARGES	(7.13)	(19.21)	(13.40)	(18.87)
<b>PRE-TAX PROFIT</b>	<b>158.40</b>	<b>(47.99)</b>	<b>(44.64)</b>	<b>111.46</b>
5 TAXES	(8.78)	(7.53)	(8.61)	(10.82)
<b>PROFIT AFTER TAX</b>	<b>149.61</b>	<b>(55.52)</b>	<b>(53.25)</b>	<b>100.64</b>

**RATIOS**

BUSINESS SUSTAINABILITY				
1 PRE-TAX MARGIN	1.70	(0.75)	(0.48)	0.70
2 EBITDA MARGIN	1.77	(0.40)	(0.33)	0.81
3 EBIT RETURN ON ASSETS	0.30	(0.07)	(0.05)	0.19

**FINANCIAL SUSTAINABILITY**

1 TOTAL INVESTMENTS / EQUITY	1.41	0.12	0.66	0.57
2 LIQUID CAPITAL BALANCE (LCB) / EQUITY	0.33	0.35	0.28	0.45
3 (CASH, CASH EQUIVALENTS & GOVERNMENT SECURITIES) / TOTAL ASSETS	0.61	0.14	0.28	0.40
4 TOTAL DEBT / TOTAL ASSETS	0.28	0.01	0.00	-

### Broker Fiduciary Rating Scale & Definitions

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

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

<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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- (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)

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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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