



The Pakistan Credit Rating Agency Limited

ISMAIL IQBAL SECURITIES (PRIVATE) LIMITED

ENTITY RATING REPORT

	NEW [OCT-16]	PREVIOUS [OCT-15]
Long-Term	BBB-	BBB-
Short-Term	A3	A3
Outlook	Stable	Stable

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1. RATING ANALYSES
2. FINANCIAL INFORMATION
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OCTOBER 2016

Profile

- IISL, with commercial operations starting in Aug'04, operates through 2 branches, both in Karachi.
- Its main activities include equity brokerage and underwriting.
- Being a private limited company, IISL is owned by three individuals, wherein the majority shareholding (65%) lies with the CEO - Mr. Ahfaz Mustafa and remaining stake is equally held by siblings.
- The family represents Ismail Iqbal group. The family is also engaged in education, logistics, and packaging.
- The company's auditors are Baker Tilly Mehmood Idress Qamar. They are on the panel of auditors maintained by the State Bank of Pakistan.

Governance

- The board comprises two members, including the CEO and his elder brother (Mr. Azhar Iqbal). Executive decision making rests Mr. Ahfaz Mustafa while Mr. Azhar Iqbal provides governance oversight.
- Mostly decision making is done through informal exchange of views between the two board members. The board meeting minutes do not capture the essence of board oversight.

Management

- IISL is headed by Mr. Ahfaz Mustafa (CEO). He has over a decade of experience in the brokerage industry.
- Experienced and skilled management team with simple organizational structure. Management committee structure does not exist.

Risk Management

- There is no separate risk management department at IISL. The risk management architecture and internal control are overseen by the accounts department, by manager accounts.
- IISL provides mark-up free credit facility to particular clients with whom strong business ties exists.
- Investment decision is made by the CEO in consultation with other director in an informal way. IISL does not have any formal Investment Policy document (IPS) for its proprietary book approved by BoD

Performance

- The company's brokerage revenues witnessed an impressive growth of 18% YoY to PKR 46mln as at end-Mar'16 (end-Mar'15: PKR 39mln).
- Major growth witnessed during 3QFY16 on account of handling underwriting assignments of Crescent Star Insurance Limited right share issue, Shifa International Hospital Limited right share issue and Pak Elektron Limited right share issue
- Meanwhile, the company witnessed higher capital gains on its proprietary book (end-Mar'16: PKR 33mln, end-Mar'15: PKR 29mln). Consequently, the overall operating revenue stream grew by ~18% (end-Mar'16: PKR 80mln, end-Mar'15: PKR 68mln).
- The finance cost of the company remained stagnant (PKR 13mln). Despite decline in personnel expenses, company's operating expenses surged by 22% YoY basis.
- This resulted in ~250% improvement in the company's profitability on a YoY basis (end-Mar'16: PKR 21mln, end-Mar'15: PKR 6mln).
- Going forward, IISL is fortifying its current forte while diversifying revenue streams – underwriting. Main focus would remain on increasing foreign and local institutional and retail clientele particularly high net worth individuals.

Financial Risk

- The company's liquid assets were 2.5x of its trade related liabilities at end-Mar'16 (end-Jun'15: 2.3x).
- As at end-Mar'16, the company's liquid assets represent 59% of its total assets while its trade-related assets were 0.5x of its trade related liabilities at end-Mar'16 (end-Jun'15: 2.0x), signifying a net payable position of PKR 86mln
- IISL has a reasonable capitalization level with regulatory Net Capital Balance standing at PKR 164mln at end-Mar'16. As per regulations, the company can take an exposure of twenty five times of its NCB – thus, giving IISL modest capacity to avail orders.

RATING RATIONALE

The ratings reflect modest positioning of the company in the brokerage industry. This is supplemented by IISL's small equity base with commensurate net capital balance (NCB). IISL's revenue depicts a tilt towards High Net worth Individuals (HNWIs); contribution of foreign clients is meager. Customer concentration is high though longevity of the relationship alleviates the associated risks. The company has achieved sizeable reduction in receivables; underwriting business provided support to the ratings. The company makes profit from core brokerage business. The business plan envisages deepening of inroads into existing clientele while focusing on foreign clients and underwriting business. The company's risk appetite in underwriting is depicted by the recent transactions; wherein prudence vis-a-vis risk needs to be exercised.

KEY RATING DRIVERS

The ratings are dependent on the company's ability to maintain its relative positioning in the brokerage industry. Meanwhile, strengthening of governance framework in accordance with the new regulation would be important. Moreover, managing credit risk and effective utilization of investment float remain imperative.



Ismail Iqbal Securities (Private) Limited

BALANCE SHEET	31-Mar-16	30-Jun-15	30-Jun-14
	9MFY16 <i>Unaudited</i>	FY15 <i>Audited</i>	FY14 <i>Audited</i>
<i>PKR mln</i>			
FINANCING			
Finances			
1. Margin Trading System	24	-	-
2. Margin Financing	-	-	-
3. Ready Futures	10	-	-
4. Trade Debts	53	168	302
Investments**			
1. Deposits with Banks and Cash & Bank Balances	116	80	0
4. Long-Term	34	42	33
5. Short-Term	169	111	81
	406	401	416
Other Assets			
Advances, Deposits and Other receivables	61	73	38
Others (including Fixed Assets)	19	17	19
TOTAL ASSETS	486	492	472
Funding			
Commercial	113	83	74
FI's	100	165	176
Other Liabilities (Non-Interest Bearing)	4	4	7
Equity	269	240	215
TOTAL EQUITY & LIABILITIES	486	492	472
INCOME STATEMENT			
	31-Mar-16	30-Jun-15	30-Jun-14
	9MFY16 <i>Unaudited</i>	FY15 <i>Audited</i>	FY14 <i>Audited</i>
Fee-Based Income			
Fees	46	58	55
Commission		-	-
Brokerage		-	-
Operating Cost	(45)	(36)	(30)
Core Income / (Loss)	1	22	25
Non Fee-Based Income	34	55	32
Operating Income / (Loss)	35	77	57
Other cost			
a. Financial Charges	(13)	(31)	(31)
b. Bad Debts	-	(21)	(10)
Profit / (Loss) Before Tax	21	25	16
RATIO ANALYSIS			
	31-Mar-16	30-Jun-15	30-Jun-14
	9MFY16 <i>Unaudited</i>	FY15 <i>Audited</i>	FY14 <i>Audited</i>
Performance			
ROE	8%	10%	7%
Fee based Income/Total Income	57%	51%	63%
Operating Cost-to-Total Income	57%	32%	34%
Financial Exposure			
Investment/Equity	119%	97%	53%
Equity/Total Capital	63%	46%	38%
NCB/Equity	61%	57%	48%
Liquidity			
Liquid Assets / Total Assets	59%	39%	17%
Coverages			
FCFO/Gross Interest	1.6	1.5	1.5
FCFO/Gross Interest+CMLTD	1.5	1.5	1.5
Capital Adequacy			
Total Debt / Equity	37%	69%	82%



STANDARD RATING SCALES & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA	<p>Highest credit quality. Lowest expectation of credit risk.</p> <p>Indicate exceptionally strong capacity for timely payment of financial commitments.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+ AA AA-	<p>Very high credit quality. Very low expectation of credit risk.</p> <p>Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p>	
A+ A A-	<p>High credit quality. Low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.</p>	
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk.</p> <p>The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Moderate risk. Possibility of credit risk developing.</p> <p>There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>High credit risk.</p> <p>A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.</p>	
CCC CC C	<p>Very high credit risk.</p> <p>“CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.</p>	
D	<p>Obligations are currently in default.</p>	

Rating Watch

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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’.

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, a suspended rating should be considered withdrawn.

Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.



Name of Entity
Sector
Type of Relationship

ISMAIL IQBAL SECURITIES (PRIVATE) LIMITED (IISL)
Brokerage
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
6-Oct-16	BBB-	A3	Stable	Maintan
1-Oct-15	BBB-	A3	Stable	Initial

Related Criteria and Research

Rating Methodology
Sector Study

Securities Brokers Entity Rating Methodology
Brokerage Industry - Viewpoint | Nov-15

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

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[Probability of Default \(PD\)](#)

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