

BROKER FIDUCIARY RATING REPORT

First National Equities Limited

REPORT DATE:

March 6, 2024

RATING ANALYSTS:

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RATING DETAILS

Broker Fiduciary Rating	BFR3+ <i>Good Fiduciary Standards</i>
Rating Rationale	The rating signifies sound ownership and governance, management and client services as well as internal control and regulatory compliance. Business and financial sustainability is adequate.
Rating Date	March 6, 2024

COMPANY INFORMATION

Incorporated in 1995	External auditors: Tariq Ahmed Abdul Ghani Maqbool & Co. Chartered Accountants
Public Limited Company	Chief Executive Officer: Mr. Ali Aslam Malik
Key Shareholders (with stake 5% or more):	Chairman of the Board: Mr. Adnan Amjad
<i>First Florance Developers (Pvt.) Ltd. ~ 31.04%</i>	
<i>Mr. Ali Aslam Malik ~ 11.13%</i>	

APPLICABLE METHODOLOGY

Applicable Rating Criteria: Broker Fiduciary Ratings 2021

<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

APPLICABLE RATING SCALE(S)

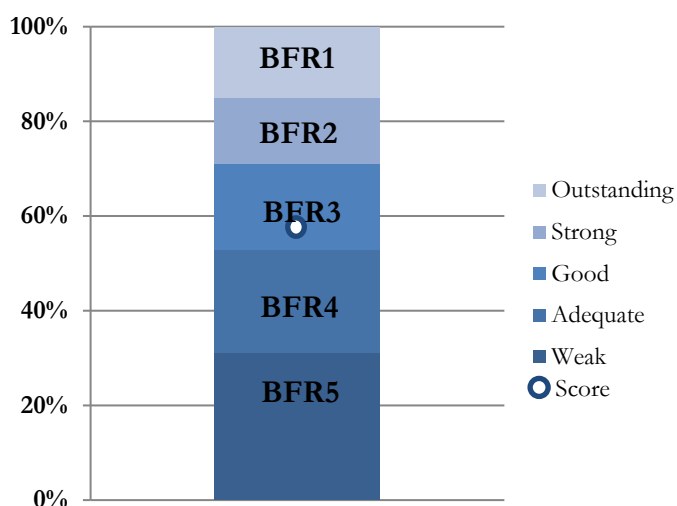
VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

First National Equities Limited

CORPORATE PROFILE OVERALL GRADING

First National Equities Limited (FNEL) was incorporated in 1995 under the Companies Ordinance 1984. In 2004, it was listed on Pakistan Stock Exchange. The Company is engaged in the business of equity brokerage and was awarded the Top Companies Award by PSX in 2006. Major shareholding is vested with an associated company, First Florance Developers (Pvt.) Ltd. and Mr. Ali Aslam Malik who also serves as the Chief Executive of the company. General public holds 42% of the company’s outstanding shares. Other associated concerns include First Pakistan Securities Limited, Switch Securities (Pvt.) Ltd. and MCD Pakistan Limited.



The Company holds a Trading Right Entitlement Certificate (TREC) issued by the Pakistan Stock Exchange Limited (PSX) for Trading and Self-Clearing Services. External auditors of the company are Tariq Abdul Ghani Maqbool & Co. Chartered Accountants. Auditors belong to category ‘B’ on the approved list of auditors published by the State Bank of Pakistan (SBP).

Business and Financial Sustainability Indicators

	9MFY23	FY22	FY21
Size of Net Worth (Rs. In Millions)	1,231	1,279	1,164
Gearing x (Total Borrowing/ Total equity)	0.32x	0.29x	0.39x
Leverage x (Total liabilities/ Total equity)	0.55x	0.52x	0.70x
Liquid Assets/ Total Liabilities (x)	0.48x	0.46x	0.74x
Short term Investments/ Total Equity (%)	2%	3%	15%

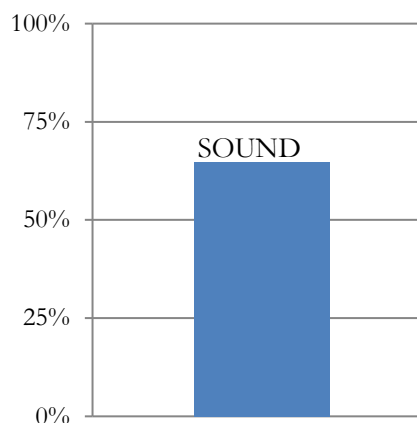
First National Equities Limited

Rating Indicators

Ownership & Governance

- The Company is a listed entity, with 42% shares vested with general public, while the sponsor and related parties constitute rest of the shareholding.
- Board of directors consists of seven members, including one-third independent representation. Four board level committees are present, two of which are headed by an independent member.
- The financial statements maintain a sound level of transparency and disclosure. Nevertheless, engaging an external auditor from the 'A' category of SBP's panel could further improve the quality of these financial statements

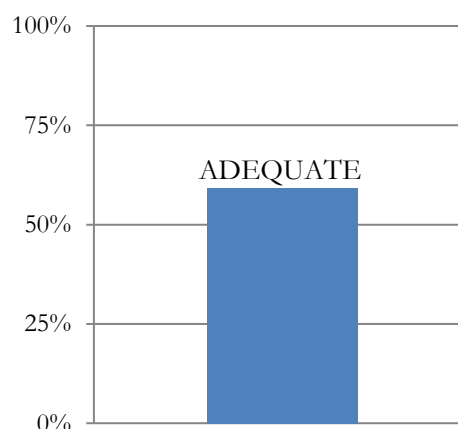
Ownership & Governance



Business & Financial Sustainability

- Earning profile of the Company was significantly impacted owing to decline in core brokerage income during FY22. End 9MFY23, the Company incurred a loss of Rs. 48m (FY22 PAT Rs. 115m, FY21 PAT Rs. 184m)
- Cost to income ratio has significantly increased end-9MFY23 at 154%, the same may be improved by increasing revenue base and curtailing administrative expenses.
- Equity base is strong at Rs. 1,231m (FY22 1,278m); however, it is largely invested in a related party 'Kingbhai Digisol'. Adjusting the same, total equity reduces to Rs. 697m (FY22: Rs. 744m)
- The leverage end-9MFY23 0.55x (FY22: 0.52x, FY21: 0.70x) and gearing ratios 0.32x (FY22: 0.29x, FY21: 0.39x) remained within a manageable range. However, on adjusted equity basis, these ratios remain on the higher side.
- Liquidity profile is adequate with liquid assets providing 0.48x coverage to total liabilities end-9MFY23 (FY22: 0.46x).
- Company's exposure to market risk remains low, owing to a small proprietary book.
- Overall, business and financial sustainability is considered adequate. Going forward, increasing revenue base along with market share and

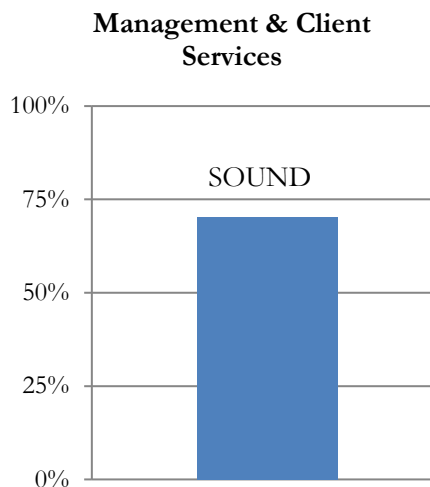
Business & Financial Sustainability



improvement in operational efficiency will be important for rating.

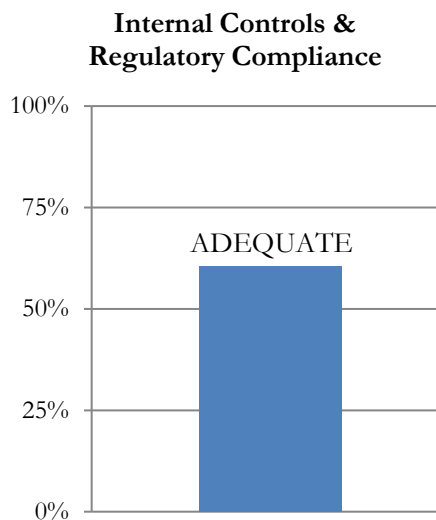
Management & Client Services

- Making market reports, daily briefings, commission rates, and customer reports accessible on the website improves client support, though expanding the range of these resources could be explored.
- Presence of a fully-integrated ERP platform has been noted, however, disaster recovery practices may be enhanced through outsourcing a third party for off-site data backups.
- Overall organizational structure is commensurate with the size of operations however, inclusion of a risk management department may be considered to achieve better clarity in reporting lines.



Internal Controls & Regulatory Compliance

- Internal control measures are considered sound; however, the scope of documented internal control policies may further be enhanced.
- Reporting of personal trading and review of order recording may be done on periodic basis.
- Overall, internal control and regulatory compliance levels are considered adequate.



Broker Fiduciary Rating Explained

In Securities Broker Fiduciary Rating (SBF), the strength of fiduciary role of the securities brokers is captured through the relative financial strength of the securities broker firm and its sponsors along with depth of internal control and governance framework, which are key rating ingredients. Responsiveness of the risk and internal control structure, quality of HR and soundness of the business infrastructure determine the strength of management and level of service quality of a stock broker. VIS Credit Rating Co. Ltd. (VIS) has developed a rating system that evaluates brokerage firms on the basis of such practices and the systems instituted to safeguard investor interests are at the forefront.

First National Equities Limited

REGULATORY DISCLOSURES		Appendix I		
Name of Rated Entity	First National Equities Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Fiduciary Rating (BFR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	RATING TYPE: BFR			
	03/06/2024	BFR3+	Stable	Initial
Instrument Structure	N/A			
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.			
Probability of Default	N/A			
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