

BROKER FIDUCIARY RATING REPORT

Pearl Securities Limited

REPORT DATE:

January 16, 2025

RATING ANALYSTS:

 Shaheryar Khan Mangan
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RATING DETAILS

Broker Fiduciary Rating	BFR3
Rating Rationale	The rating signifies sound management & client services and internal controls & regulatory compliance, ownership & governance framework. Whereas, business & financial stability is considered adequate.
Rating Date	January 16, 2025

COMPANY INFORMATION

Incorporated in 2000	External auditors: M/s Crowe Hussain Chaudhry & Co. Chartered Accountants
Public Unlisted Company	Chairman of the Board: Syed Alamgir Shah
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Ms. Farah Zubair
- General Provident and Investment Fund of Khyber Pakhtunkhwa – 39.3%	
- Mrs. Fatima Usman – 30.7%	
- Ms. Alia Dhedhi – 6.7%	
- Mr. Amir Nazeer Dhedhi – 6.7%	
- Mr. Muhammad Arfeen Dhedhi – 6.7%	
- Mrs. Naik Parveen – 6.7%	

APPLICABLE METHODOLOGY

Applicable Rating Criteria: Broker Fiduciary Ratings
<https://docs.vis.com.pk/Methodologies%202024/Broker-Fiduciary-Rating.pdf>

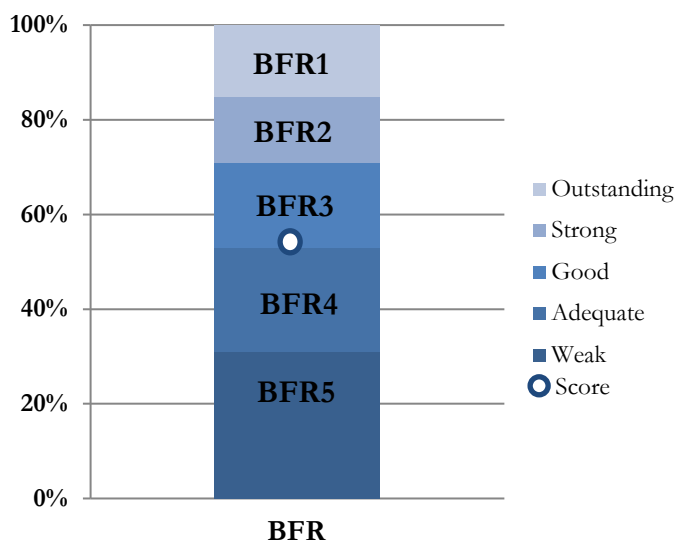
APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Pearl Securities Limited

CORPORATE PROFILE OVERALL GRADING

Incorporated in 2000, Pearl Securities Limited (PSL) is engaged in provision of equity, commodities, money market & interbank foreign exchange brokerage services. Majority shareholding of the Company is vested with Government of Khyber Pakhtunkhwa-GPI Fund and Ms. Fatima Usman. Presently, the Company operates through its head office based in Karachi and six branches in the provinces of Sindh, Punjab and KP.



The Company holds a Trading Right Entitlement Certificate (TREC) from PSX for Trading and Self-Clearing Services and a member of Pakistan Mercantile Exchange Limited (PMEX). External auditors of the company are M/s Crowe Hussain Chaudhry & Co. Chartered Accountants. Auditors belong to category ‘A’ on the approved list of auditors published by the State Bank of Pakistan (SBP).

Business and Financial Sustainability Indicators

	MFY25*	FY24	FY23
Total Equity (Rs. In Millions)	280.9	224.1	241.8
Gearing x (total interest-bearing debt/ total equity)	4.33x	4.33x	5.82x
Leverage x (total liabilities/ total equity)	6.79x	6.79x	7.57x
Liquid Assets/ Total Liabilities (x)	0.29x	0.23x	0.16x
Short term Investments/ Total Equity (%)	118.88%	90.32%	77.36%

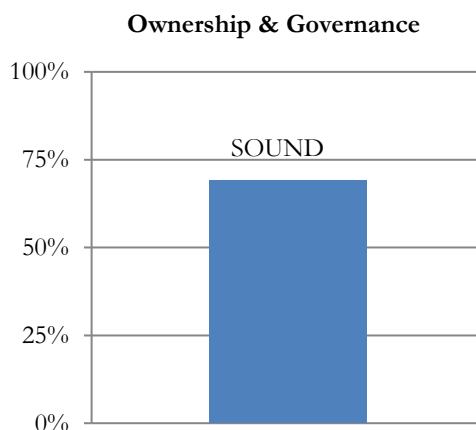
**Unaudited Accounts*

Pearl Securities Limited

Rating Indicators

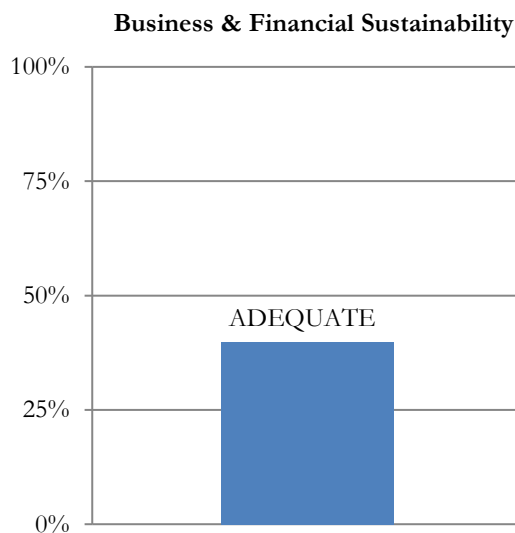
Ownership & Governance

- The Company is a public unlisted entity, with around 39% shareholding vested with Govt of KPK GPI Fund.
- PSL's board comprises of 5 members, with two government nominees on the board, boding well for the Company's governance framework.
- Additionally, the Company has three board committees: Audit, Investment, and HR. However, the board size is constrained, with only two members on each committee. Expanding the size of the board committees and ensuring non-repetition of members across them may further enhance the Company's governance framework.
- Disclosure levels of the Company are considered adequate. However, inclusion of director's report, CEO statement and statement of compliance in company's annual report may be considered to enhance reporting framework.



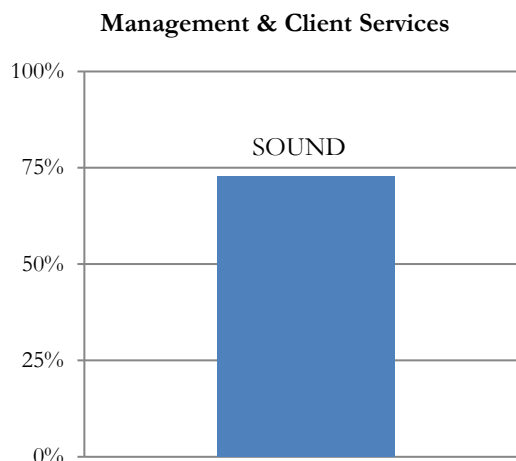
Business & Financial Sustainability

- During FY24, brokerage revenue of the Company increased vis-à-vis FY23. This increase is attributed to the favorable market dynamics which spurred investor confidence, which persisted in the subsequent period.
- With increased brokerage income coupled with higher capital gains, efficiency of the Company stood at ~36% in 5MFY25 (Jun'24: ~35%, Jun'23: ~39%).
- However, elevated finance cost due to higher short-term borrowing continues to weigh on the Company's net profitability, posting losses on timeline basis.
- The Company's liquid assets coverage against total liabilities stood at 0.29x. as at Nov'24 (Jun'24: 0.23x, Jun'23: 0.16x).
- The Company also has a heightened market risk, with short term investments relative to its equity standing at ~119% as at Nov'24 (Jun'24: ~90%, Jun'23: ~77%).
- Capitalization profile indicates an increased risk, with leverage and gearing indicators standing at 6.79x and 4.33x as at Nov'24 respectively (Jun'24: 8.25x, 5.61x, Jun'23: 7.57x and 5.87x).
- Going forward, deleveraging the balance sheet, enhancing the liquidity profile, and managing market risk will be important for the rating.



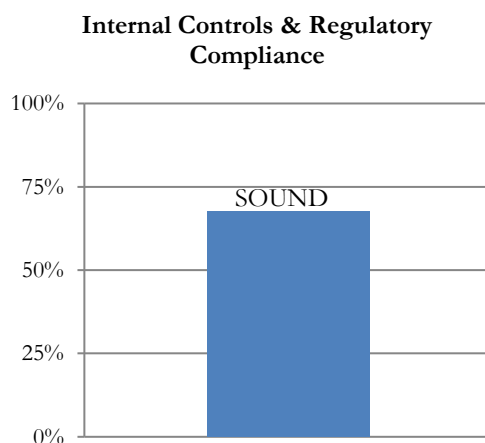
Management & Client Services

- Overall management and client services are considered sound. Customer facilitation tools are well in place with availability of mobile and web-based trading. However, investor grievance procedures may be more enhanced to improve customer experience.
- Fully integrated ERP available, reporting of trading activity to customers is done on daily basis.
- Business continuity procedures are in place however, the same may be strengthened through increasing frequency of disaster recovery practices.



Internal Controls & Regulatory Compliance

- Overall internal control and regulatory compliance framework is considered sound. However, scope of internal policies may be further enhanced.
- In addition, dissemination of policies with all stakeholders of the organization may be considered for strengthening of internal control framework.
- Periodic review of order recording system may be considered instead of exercising the same on as and when needed basis.
- Inclusion of independent risk management department may strengthen overall control framework.



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.

Pearl Securities Limited

REGULATORY DISCLOSURES		Appendix I			
Name of Rated Entity	Pearl Securities 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				
	16-Jan-25	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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