

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

RATING REPORT

Intermarket Securities Limited

REPORT DATE:

March 10, 2017

RATING ANALYST:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Stable		Stable	
Rating Date	Feb 21, 2017		Nov 20, 2015	

COMPANY INFORMATION

Incorporated on September 2002	External auditors: Rahman Sarfarz Rahim Iqbal Rafiq, Chartered Accountants
Public Un-quoted Company	Chairman of the Board: Azneem Bilwani
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Shehzad Moosani
Azneem Bilwani – 90%	
Muhammad Javed Moti – 10%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (May 2015)
http://jcrvis.com.pk/docs/Securitiesmethodology1-2015.pdf

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Intermarket Securities Limited

OVERVIEW OF THE INSTITUTION

Intermarket Securities Limited is a public limited company incorporated under the Companies Ordinance, 1984. The company is a TREC holder. 90% shareholding of the company is held by Mr. Azneem Bilwani (Chairman of the Board) while the remaining 10% is with Mr. Muhammad Jawed.

RATING RATIONALE

Intermarket Securities Limited (IMSL) is the flagship company of Intermarket Group (IMG); IMSL primarily provides brokerage services for domestic and international retail and institutional clients. IMSL operates as the financial and corporate advisory arm of IMG, a group that further operates in construction, real estate and information technology.

Rating Drivers

Domestic Brokerage: The brokerage department of IMSL spent FY16 focusing on developing a source for core brokerage commission income by creating and improving institutional client relationships. Total number of institutional clients has increased from 27 at end-FY15 to 163 at end-FY16. Subsequently, total income generated from these clients has increased more than 5x to Rs. 60m (FY15: Rs. 11m) for the period FY16. Retail clients continue to generate primary portion of total brokerage commission income amounting to Rs. 150m (FY15: Rs. 94m) for the period. The company's market share has increased to 4.49% (FY15: 2.06%) on total Share Volume traded.

International Brokerage: The company is in the process of developing strong international relationships to provide brokerage services to prospective clients. IMSL has signed multiple broking agreements with international brokers based in the United States of America (USA) and in London. The company has conducted roadshows in Dubai, Hong Kong and the USA generating positive feedback from prospective investors. These sustained efforts are expected to develop into brokerage commission income where commission rates are on the higher side. Furthermore, improvement in quality and efficiency of research reports has resulted in international brokers providing due compensation and entering formal contracts for sharing reports on the Pakistani market.

Senior Management: The company has maintained an experienced senior management team that drives the company towards growth in market share and improvement in presence in the international market. IMSL has in place an Underwriting & Investment Committee to give formal approval of all underwriting and Mergers & Acquisitions decisions. Additionally, the committee directs strategy of the company's proprietary book. There has been turnover in only one senior position, Chief Financial Officer. Furthermore, the company has added an Internal Audit department that will support compliances with regulations and create operational efficiencies.

Financials: Through trade debts have significantly increased, ageing profile of trade debts remains sound with only 2% of trade debts remaining outstanding above 90 days. Growth has occurred on account of increased business activity, with the company utilizing short term borrowings to finance the same. Short term debt represents 98% of total debt levels at end-FY16. Increase in total debt has impacted debt leverage and gearing indicators, which valued at 1.42x and 1.08x (FY15: 1.06x, 0.36x) at end-FY16, respectively. Profit after tax posted by IMSL significantly dropped to Rs. 14m (FY15: Rs. 230m), for the period FY16. Reduction has occurred on account of revaluation losses on equity shares held by the company, along with growth in administrative expenses.

Intermarket Securities Limited

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			Appendix II
<u>BALANCE SHEET</u>	30-Jun-16	30-Jun-15	30-Jun-14
Trade Debts	663.00	224.81	277.58
Long Term Investments	36.00	36.00	36.00
Short Term Investments (Prop. Book)	332.05	650.71	221.86
Cash and Bank balances	86.41	49.24	22.39
Total Assets	1,364.37	1,129.00	700.45
Trade and Other Payables	81.21	169.41	95.29
Interest Bearing Debt	610.98	196.52	275.88
Short Term running finance	597.41	191.78	275.88
Net Worth <i>(including Surplus in Revaluation of investments and Director's Loan)</i>	648.47	705.90	287.53
Total Adjusted Equity <i>(Excluding Surplus in Revaluation of investments and inclusive of Director's Loan)</i>	564.82	548.83	321.53
<u>INCOME STATEMENT</u>	30-Jun-16	30-Jun-15	30-Jun-14
Total Revenue	164.57	107.85	71.08
Administrative Expenses	161.16	50.88	30.63
Finance Costs	31.43	36.60	17.87
Profit Before Tax	4.40	275.72	54.66
Profit After Tax	13.96	230.10	46.96
<u>RATIO ANALYSIS</u>			
Market Share (Share Volume Traded) (%)	4.49%	2.06%	N/a
Liquid Assets to Total Liabilities	56.57%	87.53%	64.46%
Liquid Assets to Total Assets	30.67%	34.52%	34.87%
Debt Leverage	1.42	1.06	1.18
Gearing	1.08	0.36	0.86
Efficiency (%)	97.93%	47.18%	43.09%
ROAA (%)	1.12%	25.15%	8.57%
ROAE (%) <i>(Utilizing adjusted equity)</i>	2.51%	52.87%	15.76%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES				Appendix IV	
Name of Rated Entity	Intermarket Securities Limited				
Sector	Brokerage				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	02/21/17	BBB+	A-2	Stable	Reaffirmed
	11/20/15	BBB+	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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.				
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