RATING REPORT

Intermarket Securities Limited

REPORT DATE:
September 12, 2019

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	BBB+	A-2
Rating Outlook	Stable		Stable	
Rating Date	*September 05, 2019*		*April 25, 2018*	

COMPANY INFORMATION	
Incorporated in 2002	**External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Un-listed Company	**Chairman of the Board:** Azneem Bilwani
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Noor Hameed
Azneem Bilwani – 90%	
Muhammad Jawed – 10%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017) https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Securities%20Firms%20201706.pdf

Intermarket Securities

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Intermarket Securities Limited (IMSL) is a public limited company incorporated in 2002 under the Companies Ordinance, 1984. IMS is registered with Securities & Exchange Commission of Pakistan and holds Trading Rights Entitlement Certificate (TREC) issued by Pakistan Stock Exchange Limited (PSX). 90% shareholding of the company is held by Mr. Azneem Bilwani (Chairman of the Board) while the remaining 10% is held by Mr. Muhammad Jawed

Intermarket Securities Limited ('IMSL' or 'the company') operates under the umbrella Intermarket Group (IMG), a business conglomerate with stakes in wide range of sectors across Pakistan, including construction, information technology and external trade and financial services. IMSL primarily provides brokerage services for domestic and international retail and institutional clients. IMSL operates as the financial, equity research and corporate advisory arm of IMG.

Rating Drivers

Brokerage industry continues to be affected by economic cycles. Declining trend in trading volumes during FY18 and ongoing year has impacted the topline of brokerage industry.

Political uncertainty due to elections, aggressive foreign selling, rising current account deficit and expected slow-down in GDP growth has translated into dismal performance of the benchmark index over the last 18 months. Resultantly, market volumes have posted a noticeable decline during the period. Going forward, market volumes, over the short-term, are expected to remain under pressure given rising interest rates and risk of rupee depreciation. Given the operating environment, players with efficient and variable cost structures focusing on high margin business and diversification in revenue streams are expected to fare better vis-à-vis peers.

Rating reflects sustained market positioning, a diverse range of services and strong international broker dealer linkages

IMSL maintained the market share at 6.4% during FY18 (FY17: 6.3%), which decreased to 5.5% during 1HFY19. The brokerage income comprised of 57% from the retail clientele, 29% from institutions and the remaining 14% from international front during 1HFY19. On the domestic front, the retail clientele remains the focus of IMSL sales strategy with an approach on growing High Net Worth Individuals (HNWI) and institutional business by capitalization on strong research and sales team.

Losses persist on the back of shrinking trading revenues, adverse investment performance and a sizable expense base

Despite management slashing the salary-based overheads by about a quarter, the shrinkage in trading revenues and persistent adverse performance of the proprietary trading portfolio, IMSL's bottom line depicted a loss of Rs. 103mn (FY17: Rs. 27mn). Given a one-off gain on sale of property, the bottom line was marginally positive in 9MFY19. Nevertheless, the company remained in operational losses, with efficiency ratio standing slightly higher at 125.8% (FY18: 122.6%, FY17: 106.4%). Going forward, a turn-around in profitably remains linked with trading volumes in the domestic market.

Given persistent losses 21% of the capital has been eroded in two years (FY17-FY18); Cognizant of the same the sponsor director has committed equity reinforcement

Given persistent losses in the two-year period (FY17-FY18), 21% of the company's equity has been eroded, as it stood as of FY16. Going forward, there are plans to convert the existing subordinated interest-free loan into equity. Post transfer, the company's net equity will rise above Rs. 800mn, which is further committed to be enhanced to Rs. 1bn, over the medium term. The leverage and gearing indicators remained at 0.6x and 0.27x (FY17: 0.6x, 0.34x) at end-FY18, respectively, which are compliant with VIS benchmarks. The rating reflects persistent support from sponsor including the additional medium term capital enhancement commitment. In addition, the rating also takes into account express commitment by the company, to limit underwriting mandates at 0.5x of equity.

Liquidity profile is viewed as Adequate.

Liquid assets in relation to total liabilities increased to 121% (FY17: 69%) on account of increase in proprietary book and higher cash & bank balances. Liquid assets are more than sufficient to account for current liabilities of the company. The trade debts represent the highest proportion in the asset mix, but their ageing is considered to be manageable.

Intermarket Securities

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix I
BALANCE SHEET	**30-Jun-17**	**30-Jun-18**	**31-Mar-19**
Property, Plant & Equipment	53.4	45.4	41.5
Trade Debts	1,142.2	442.9	477.0
ST Investments	180.8	366.6	247.2
LT Investments	77.2	61.8	47.9
Cash and Bank balances	196.2	270.6	125.2
Total Assets	2,061.7	1,498.7	1290.4
Trade and Other Payables	240.4	300.4	153.1
Long Term Loans (including CM)	17.0	14.0	13.8
Short Term Borrowings	427.2	229.6	165.5
Total Equity	951.3	694.3	689.5
INCOME STATEMENT			
Total Revenue	332.5	217.9	143.6
Brokerage Income	*297.6*	*171.4*	*124.4*
Dividend income	*2.1*	*4.1*	*10.8*
Underwriting & FAS	*5.8*	*15.2*	*8.4*
IPO commission	*0.4*	*0.0*	
MFS Income	*26.7*	*27.2*	
Administrative Expenses	(293.5)	(231.1)	(151.9)
Finance Cost	(62.6)	(58.7)	(28.7)
Profit Before Tax	(25.9)	(88.2)	8.1
Profit After Tax	(27.4)	(103.4)	8.1
RATIO ANALYSIS			
Liquid Assets to Total Liabilities (%)	68.7%	121.5%	NA
Liquid Assets to Total Assets (%)	24.6%	46.9%	NA
Leverage (x)	0.6x	0.6x	0.4x
Gearing (x)	0.3x	0.3x	0.2x
Efficiency (%)	106.4%	122.6%	125.8%
ROAA (%)	-1.6%	-5.8%	0.8%
ROAE (%)	-3.5%	-12.6%	1.6%

ISSUE/ISSUER RATING SCALE & DEFINITION Appendix II

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 III

Name of Rated Entity	Intermarket Securities Limited
Sector	Brokerage Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
05-Sep-19	A-	A-2	Stable	Upgraded
25-Apr-18	BBB+	A-2	Stable	Reaffirmed
31-Oct-17	BBB+	A-2	Stable	Reaffirmed
21-Feb-17	BBB+	A-2	Stable	Reaffirmed
20-Nov-15	BBB+	A-2	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.
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