RATING REPORT

Intermarket Securities Limited

REPORT DATE:
December 4, 2020

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	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*December 4, 2020*		*September 5, 2019*	
Rating Action	Reaffirmed		Upgraded	

COMPANY INFORMATION	
Incorporated in 2002	**External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Unlisted Company	**Chairman of the Board:** Mr. Azneem Bilwani
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Wajid Hussain
Azneem Bilwani – 99.9%	

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 Limited (IMS)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Intermarket Securities Limited (IMSL) is a public limited company incorporated in 2002. IMS is registered with Securities & Exchange Commission of Pakistan and holds Trading Rights Entitlement Certificate (TREC) issued by Pakistan Stock Exchange Limited (PSX).

99.9% shareholding of the company is held by Mr. Azneem Bilwani (Chairman of the Board).

Operating in broking business for over 18 years, Intermarket Securities Limited (IMS) is primarily engaged in provision of equity brokerage services catering to domestic retail and high net worth (HNWI) clients, local institutions and foreign broker dealers. Alongside, it also provides equity research and corporate advisory services. The company is a part of Intermarket Group (IMG) which has presence in IT, real estate, external trade and financial services. IMS operations are run through its head office and two branches located in Karachi.

Key Rating Drivers

After two consecutive years of dismal trading activity, PSX volumes have depicted improvement and thus, positively impacted profitability of brokerage industry.

Market volumes showcased an increase of around ~27% in FY20 largely driven by high index volatility experienced during the period (given the impact of covid-19 and subsequent economic recovery). The growth momentum continued in the ongoing fiscal year with overall PSX volumes clocking in at ~40b in 1QFY21, a four-fold increase vis-à-vis corresponding period last year. Going forward, improved macroeconomic sentiments as evident from stabilization in exchange and interest rates, current account surplus during4MFY21, favorable outlook for construction & textile sector and GoP's focus towards digital initiatives (such as Roshan Digital Account) would improve the overall market participation over the short to medium term. However, political uncertainty and increasing covid-19 infections remain key risk factors.

On the other side, government's support for continuation of business activities (specifically essential industries) through implementation of smart lockdowns would limit the risk arising from second wave of covid-19. Outlook for the brokerage industry is considered favorable with volumes expected to be higher in the ongoing fiscal year vis-à-vis FY20.

PSX Data (Ready + Future)	FY18	FY19	FY20	1QFY20	1QFY21
Volume (In Billions)	58	55	68	10	40
Value (In Billions)	2,881	2,354	2,552	370	1,522

Given tough market conditions in past two years, brokerage players have enhanced their focus towards revenue stream diversification and cost rationalization which is expected to continue. Market players who maintain a proprietary book reported significant gains on investments in the outgoing fiscal year while corporate finance & advisory business largely remain affected due to covid-19. The same is expected to depict some recovery in FY21.

IMS continues to maintain market position while the brokerage revenue mix has improved on a timeline basis. Future sales strategy focuses on leveraging digital platforms & marketing channels. Healthy revenues are expected to translate from corporate advisory pipeline over the rating horizon.

IMS continues to maintain its market share at around ~6%. With improvement in trading volumes and standardization of brokerage commissions across industry, overall brokerage income of IMS grew by ~40% in FY20. Retail clientele continues to form the major proportion (~ 62%) of brokerage revenue while the share of institutional business has increased significantly on a timeline basis. The same represented around 29% of total brokerage revenue in FY20.

Around four-fifth of retail business is generated through branches (PSX and Bahadurabad) while the remaining is contributed by head office and online clients. Going forward, future sales strategy focuses on leveraging digital platforms and digital marketing channels (mainly social media) to increase retail penetration. In view of the same, the management has placed significant emphasis towards upgrading mobile application and web based portal along with streamlining operational processes to bring efficiencies.

No. of clients	FY18	FY19	FY20
Retail/ Individuals	2,011	1,953	2,143
Domestic Institutions	231	236	257
Foreign Brokers & Institutions	29	28	31
Total	**2,271**	**2,217**	**2,431**

International institutional business declined in the outgoing fiscal year largely owing to lower participation by foreign clients in the market. IMS has 7 broker dealers and 2 end-clients on its panel. Moreover, decline in number of retail clients in FY19 pertains to closure of accounts due to non-compliance with KYC stipulations.

On corporate advisory front, the company has adequate signed mandates in hand which would translate into healthy income for the segment; however, second wave of covid-19 may impact timeline of realization of these revenues.

Uptick in industry trading volumes has improved profitability during FY20 and in the ongoing year.

After depicting a declining trend over past two years, recurring revenue of the company has improved considerably during FY20 (registering a growth of ~34%). The growth momentum continued and the topline observed a four-fold increase in 1QFY21 vis-à-vis corresponding period last year. Overall revenue mix continues to be significantly dependent on equity brokerage operations, which contribute ~80% of the topline. Nevertheless, diversification has improved on a timeline basis. Remaining revenue is shared by advisory &

underwriting segment, dividends and MFS income.

On the cost front, slashing salary-based overheads in the previous year facilitated in reduction of operational expense by ~12%; the same remained at similar level in FY20. The company's cost-income ratio improved significantly to 65.8% in 1QFY21 from 123.7% in FY19. Resultantly, IMS's bottom line turned positive reporting at Rs. 63.8m (FY20: 19.8m; FY19: Loss after tax of Rs. 50.4m) in 1QFY21.

Capitalization indicators supported by low leveraged capital structure and adequate liquidity profile.

Equity base had eroded ~36% over the two-year period (FY17-19); however, the same witnessed some recovery in FY20 and in the ongoing fiscal year on the back of improvement in profitability. Moreover, given the conversion of existing subordinated interest-free loan into equity in FY20, paid up capital increased from Rs. 200.6m to Rs. 503.4m.

IMS during the outgoing fiscal year obtained a secured credit line of total Rs. 1b from Bank Al-Habib and JS Bank Limited in order to facilitate its working capital requirements. Nevertheless, utilization of the running finance facility has remained low. Leverage and gearing indicators were reported at 0.66x and 0.14x (FY20: 0.27x, 0.08x) as at end-1QFY21, respectively. Liquid assets coverage of liabilities is considered strong.

Institutional trades conducted through Institutional Delivery System (IDS) are on the lower side vis-à-vis peers. IMS has remained compliant with its overall underwriting limits. Trade debts represent the highest proportion in the asset mix, but their ageing is considered to be manageable.

Corporate governance infrastructure

On corporate governance front, inclusion of an independent director on the board has been noted. However, room for improvement exists in terms of board size. This would also result in avoidance of common members in board level committees. Moreover, turnover was witnessed in senior management team since last review including the position of CEO (Mr. Wajid Hussain appointed in Jan'20), Head of Broking and Head of International Sales while the position of Head of Investment Banking is currently vacant. IMS has been assigned a Broker Management Rating of 'BMR2' by VIS Credit Rating Company.

Intermarket Securities Limited (IMS)

FINANCIAL SUMMARY (Rs. in millions)				Appendix I
BALANCE SHEET	**30-Jun-18**	**30-Jun-19**	**30-Jun-20**	**31-Sep-20**
Property, Plant & Equipment	45.4	37.7	33.7	31.7
Trade Debts	411.5	329.0	499.6	617.5
ST Investments	366.6	35.7	97.0	222.1
LT Investments	61.8	30.1	30.1	30.1
Cash and Bank balances	270.6	260.9	128.1	303.9
Total Assets	1,498.7	1,039.6	1,089.0	1,527.0
Trade and Other Payables	300.4	163.2	158.0	468.4
Long Term Loans (including CM)	14.0	12.0	5.5	4.0
Short Term Borrowings	229.6	-	65.0	127.1
Paid up Capital	200.6	200.6	503.4	503.4
Total Equity *(including directors' loan till FY19)*	920.4	842.3	858.9	922.7
INCOME STATEMENT				
Total Revenue	217.9	198.2	266.2	147.8
Brokerage Income	*171.4*	*154.2*	*217.2*	*130.9*
Dividend income	*4.1*	*13.9*	*15.6*	*0.0*
Underwriting & FAS	*15.2*	*13.2*	*23.8*	*9.4*
MFS Income	*27.2*	*16.9*	*9.5*	*7.4*
Administrative Expenses	(231.1)	(202.6)	(209.6)	(90.4)
Finance Cost	(58.7)	(42.7)	(27.1)	(6.9)
Profit Before Tax	(88.2)	(35.1)	13.6	79.6
Profit After Tax	(103.4)	(50.4)	19.8	63.8
RATIO ANALYSIS				
Liquid Assets to Total Liabilities (%)	121.5%	183.0%	119.6%	97.1%
Liquid Assets to Total Assets (%)	46.9%	34.7%	25.3%	38.4%
Current Ratio (x)	2.5x	5.6x	4.5x	2.4x
Leverage (x)	0.64x	0.24x	0.27x	0.66x
Gearing (x)	0.27x	0.01x	0.08x	0.14x
Efficiency (%)	122.6%	123.7%	88.9%	65.8%
ROAA (%)	-5.8%	-5.8%	2.3%	28.7%
ROAE (%)	-12.6%	-4.0%	1.9%	19.5%

ISSUE/ISSUER RATING SCALE & DEFINITION — Appendix II

VIS Credit Rating Company Limited

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 (IMS)
Sector	Brokerage Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
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	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
04-Dec-20	A-	A-2	Stable	Reaffirmed
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

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Wajid Hussain	CEO	November 16, 2020
Mr. Syed Raza Haider Jafri	Head of Broking	
Mr. Syed Abbas Haider	Finance Officer	