RATING REPORT

Intermarket Securities Limited

REPORT DATE:
November 17, 2021

RATING ANALYSTS:
Asfia Aziz
asfia.aziz@vis.com.pk

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	Positive		Stable	
Rating Date	*Nov 17, 2021*		*December 4, 2020*	
Rating Action	Maintained		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 2002	**External auditors:** Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Unlisted Company	**Chairperson of the Board:** Ms. Erum Bilwani
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Wajid Hussain
Ms. Erum Bilwani- 51% *Mr. Muhammad Uraib Bilwani- 49%*	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020) https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf

Intermarket Securities Limited (IMS)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Intermarket Securities Limited (IMS) 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).

51% shareholding of the company is held by Ms. Erum Bilwani who is the Chairman of the Board. During the outgoing year, Mr. Zulfiqar Ali joined as the new CFO of the company.

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. IMS operations are run through its head office and two branches located in Karachi. As per management, the company plans to tap the Northern region of Pakistan in the medium term.

Key Rating Drivers

PSX volumes witnessed a sizeable jump in the outgoing fiscal year. Thus, positively impacting the profitability profile of the brokerage industry.

After two consecutive years of dismal trading activity, volumes of PSX rebounded with a year-on-year growth of 24% in FY20 and a sizeable jump of 144% in FY21. This increase in trading volumes was mainly due to an uptick in economic activity and sustained recovery following the ease of lockdown after first wave of Covid-19 while pandemic-induced market volatility and lower prevailing interest rates also attracted investors, thus supporting trading volumes. Accordingly, in tandem with trading volumes, brokerage revenues grew across the industry. This supported the profitability of brokerage companies, some of which had slipped into losses during the 3-year period FY17-19.

Industry Trading Metrics

PSX Data (Ready + Future)	FY18	FY19	FY20	FY21
Volume (In Billions)	58	55	68	166
Value (In Billions)	2,881	2,235	2,574	6,916

Steps taken by SECP & PSX seem to be supportive with respect to ease of doing business and are expected to boost investors' confidence. Outlook for the brokerage industry is considered favorable.

New regulations in the industry include SECP's capital market reforms, wherein small-sized brokerage houses shall not be allowed custody of customer's assets. Further, SECP has made a commission slab to a minimum of 3 paisa (or 0.15% of traded value) and maximum of 2.5% of traded value. This facilitated in promotion of a healthy competition and supported profitability profile of the brokerage sector. The number of Initial Public Offerings (IPOs), which dropped in FY20, was followed by 8 IPOs in FY21, raising a sum of Rs. 14b, which was the highest sum mobilized by corporates in 14 years, with the previous best being 12 transactions on FY07. Inclusive of debt issuances, total capital raised during FY21 amounted to Rs. 31b.

SECP has simplified account opening process by allowing brokers to complete the whole process online. Moreover, the regulator is currently in the process of streamlining KYC & AML compliance regulations. Furthermore, PSX has launched several Exchange Traded Funds (ETF's) and Murabaha Share Financing (MSF), which allow investors access to lower cost asset management along with access to credit. Going forward, growth in overall economic indicators and major steps taken by SECP & PSX to boost investors' confidence will further increase the trading activity on PSX over next 2-3 years and outlook for the brokerage industry is considered favorable for the medium-term.

IMS improved market position and diversification in the operating revenue mix was noted on a timeline basis. Future sales strategy focuses on leveraging digital platforms & marketing channels garnering retail client base. Going forward, revenue growth is expected to be a function of both higher brokerage income along with income from corporate advisory pipeline.

IMS's market share increased to 3.5% in FY21 from 3.3% in the preceding year. With improvement in trading volumes and standardization of brokerage commissions across industry, overall brokerage income of IMS grew by two-folds in FY21. Retail clientele continues to form the major proportion (~ 73%) of brokerage revenue while the share of institutional and foreign business declined in FY21 with the same representing around 27% of brokerage revenue base. More than 80% of the retail business is earned through branches (PSX and Bahadurabad) while the remaining is contributed by head office and online clients. Going forward, management's focus is envisaged to remain towards garnering retail clients along with higher projected business from institutional and foreign clients given gradual recovery in the overall macroeconomic situation of the country. In order to increase retail penetration, future sales strategy focuses on leveraging digital platforms and digital marketing channels (mainly social media).

Client Category	FY19	FY20	FY21
Foreign	31	28	31
Individual	2,143	1,953	2,566
Institution	257	236	269
Total	**2,431**	**2,217**	**2,866**

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.

On corporate advisory front, the company has around seven signed mandates in hand which would translate into healthy income for the segment projected at around Rs. 40m; however, fifth wave of COVID-19 or economic uncertainty may impact timeline of realization of these revenues.

Uptick in industry trading volumes has improved profitability during FY21

Recurring revenue of the company has noticed an upward trajectory since the past two years with the same reporting a two-fold increase in FY21 being largely a function of higher trading volumes yielding greater brokerage income. Overall revenue mix continues to be significantly dependent on equity brokerage operations, which contribute ~90% of the topline. Nevertheless, diversification has improved on a timeline basis. Remaining revenue is shared by advisory & underwriting segment, dividends and MFS income. Given higher activity in the market, MFS income increased by three times in FY21 with the proportion of the same in the operating revenue increasing to 7% (FY20: 4%). Going forward, management envisages growth in the underwriting and advisor segment given sufficient mandates. Furthermore, brokerage revenue, being contingent upon market volatility is expected to report at similar levels going forward in view of gradual revival in the overall economic indicators.

Overall profitability was also supported by sizeable capital gains realized on investments to the tune of Rs. 57.6m (FY20: Loss of Rs. 3.7m) during FY21. Major scrips yielding the gains include Aisha Steel Mills (Rs. 7.9m), Gul Ahmed Textile Mills (Rs. 13.7m), International Industries (Rs. 7.6m). The aforementioned three scrips alone contributed around one-half of the realized capital gains.

Despite elevated operating costs due to higher salaries expense, efficiency ratio of the company improved significantly to 69.8% (FY21: 88.9%) in FY21. Resultantly, IMS's profit after tax was reported higher at Rs. 190.7m (FY20: Rs. 19.8m) in FY21.

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

Equity base of the company was reported on the higher side at Rs. 1.1b (FY20: Rs. 865m) at end-June'21 due to improvement in profitability. During FY20, the conversion of existing subordinated interest-free loan into equity, paid up capital increased from Rs. 200.6m to Rs. 503.4m.

IMS possesses 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 0.58x and 0.00x (FY20: 0.26x, 0.08x) as at end-June'21, respectively. Elevated leverage levels at end-June'21 were a function of higher WHT payable to NCCPL which has been settled post year-closing. 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, room for improvement exists in terms of board size. This would also result in avoidance of common members in board level committees. During the review period, a new CFO was appointed in August'21; turnover rate has been on the lower side.

Intermarket Securities Limited (IMS)

FINANCIAL SUMMARY (amounts in PKR millions)	Appendix I		
BALANCE SHEET	**30-Jun-19**	**30-Jun-20**	**30-Jun-21**
Property, Plant & Equipment	37.7	33.7	28.8
Trade Debts	303.0	373.6	374.5
ST Investments	35.7	97.0	49.9
LT Investments	30.1	30.1	30.1
Cash and Bank balances	260.9	128.1	298.0
Total Assets	1039.6	1089.0	1674.5
Trade and Other Payables	154.4	149.1	608.7
Long Term Loans (including CM)	12.0	5.5	0.0
Short Term Borrowings	0.0	65.0	0.0
Paid Up Capital			
Total Equity (including director's loan in FY19)	848.3	864.9	1058.5
INCOME STATEMENT	**30-Jun-19**	**30-Jun-20**	**30-Jun-21**
Total Revenue	**198.2**	**266.2**	**540.0**
Brokerage Income	*154.2*	*217.2*	*479.4*
Dividend income	*13.9*	*15.6*	*2.5*
Underwriting & FAS	*13.2*	*23.8*	*19.4*
IPO commission	*0.0*	*0.0*	*-*
MFS Income	*16.9*	*9.5*	*38.7*
Administrative Expenses	(202.6)	(215.2)	(364.6)
Finance Cost	(42.7)	(21.4)	(12.2)
Profit Before Tax	(35.1)	13.6	234.7
Profit After Tax	(50.4)	19.8	190.7
RATIO ANALYSIS	**30-Jun-19**	**30-Jun-20**	**30-Jun-21**
Commission Income / Turnover (Paisa/Share)	0.12	0.09	0.07
Liquid Assets to Total Liabilities (%)	191.6%	124.4%	136.9%
Liquid Assets to Total Assets (%)	34.7%	25.3%	50.4%
Short term investments to Equity	4.2%	11.2%	4.7%
Total investments to Equity	7.8%	14.7%	7.6%
Leverage (x)	0.22	0.26	0.58
Gearing (x)	0.0	0.1	-
Current Ratio (x)	5.9	4.7	2.59
Efficiency (%)	123.7%	88.9%	69.8%
ROAA (%)	-4.0%	1.9%	13.8%
ROAE (%)	-5.7%	2.3%	19.8%

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				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	17-Nov-21	A-	A-2	Positive	Maintained
	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
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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meeting Conducted	**Name**	**Designation**	**Date**		
	Mr. Syed Raza Haider Jafri	Head of Equities	November 5, 2021		
	Mr. Jawwad Rauf	Consultant Investment Banking			
	Mr. Syed Abbas Haider	Manager, Finance			
	Mr. Zulfiqar Ali	CFO			