

RATING REPORT

Intermarket Securities Limited

REPORT DATE:

February 03, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Positive	
Rating Date	Feb 03, 2023		Nov 17, 2021	
Rating Action	Maintained		Maintained	

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
<i>Ms. Erum Bilwani- 51%</i> <i>Mr. Muhammad Uraib Bilwani- 49%</i>	

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.

Intermarket Securities Limited ('IMS' or 'the Company') 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, three branches located in Karachi and one in Lahore.

Sector Update**Table 1: Industry Trading Metrics – Regular**

	FY19	FY20	FY21	FY22	5M ^{FY23}
Volume (In Billions)	37	49	131	73	27
Value (In PKR' Billions)	1,549	1,789	4,781	2,406	822

- After posting historically high trading volumes in FY21, overall volumes of PSX registered a drop of 44% during FY22 and have remained abysmally low in 5M^{FY23}. Furthermore, IPOs concluded also dropped from a historical high of 8 in FY21 to nil for FY22 and H1^{FY23}.
- The decrease in trading volumes was mainly due to weak macro-economic environment including high inflation & interest rates and rupee depreciation, along with political turmoil in the country and significant flood calamity in Q1^{FY23}.
- Accordingly, in tandem with trading volumes, brokerage revenues declined across the industry. This has dented the profitability of brokerage companies, some of which have slipped into losses.
- In our view, macro-economic is expected to remain uncertain with lack of investor interest and subdued volumes during FY23, while brokerage companies are likely to focus on administrative overhead curtailment and revenue diversification towards corporate advisory business.
- PSX is innovating and launching new products with the aim to increase market capitalization and provide enhanced experience to market participants. Initiatives taken in recent past are listed below:
 - PSX has digitized the process of listing through an online portal called 'PRIDE' (Public Offerings Revolutionized through an Integrated and Digitized Experience). This online portal is designed to automate the listing process from end to end while the portal also provides delisting service to listed companies.
 - PSX has launched its first dividend-based index designed to track performance of top-20 dividend paying stock in order to provide ease and attract investor interest.
 - Earlier, PSX had introduced the GEM Board for listing of smaller entities. However, so far total listings on GEM Board have remained limited to a couple of transactions.

Key Rating Drivers

Rating incorporates market positioning of IMS

- IMS is a small brokerage company, holding ~4% market share, in terms of ready share volumes. As illustrated in table below, IMS' market share has declined during the period under review.

Table 2: IMS Market Share (All share-Ready)

	FY20	FY21	FY22	5M'FY22
Volume	4.44%	4.47%	3.78%	3.99%

Following sizable profit in FY21, IMS's profitability has contracted subsequently

Table 3: P&L Statement (Extract)

Figures in PKR' Millions	FY21	FY22	Q1'FY22	Q1'FY23
Operating Revenue	540.0	296.4	85.6	56.4
- Brokerage Income	479.4	246.0	81.2	50.9
- Dividend Income	2.5	9.3	0.2	0.5
- Others (Research & Return on Deposits)	58.1	41.1	4.2	4.9
Operating Expense	(364.6)	(275.1)	(73.6)	(68.2)
Operating Profit/ (loss)	175.4	21.3	12.0	(11.8)
<i>Efficiency ratio (Operating Expense / Operating Revenue)</i>	69.8%	100.2%	91.4%	134.5%
Profit before Tax	234.7	(193.8)	(45.4)	(39.8)
Profit After Tax	190.7	(208.1)	(49.5)	(39.8)
ROAE	19.8%	(21.8%)		(19.2%)*
*Annualized				

- In tandem with the industry trend, wherein brokerage volumes have contracted, IMS posted revenue contraction in FY22 and Q1'FY23, with equity brokerage income was reported lower by 48.7% and 37.3% respectively vis-s-vis corresponding period last year.
- Equity brokerage remained the major contributor in operating revenue of the Company with 90.3% share in Q1'FY23 (FY22: 83.0%; FY21: 88.8%). The lack of diversification in the Company's revenue poses higher business risk vis-à-vis peers with diversified revenue sources.
- Proportion of equity income generated from retail clients depicted a drop in FY22 (FY22:56.2%; FY21: 73.2%). Conversely, the share of institutional and international clientele grew in FY22 with the same representing around 33.1% (FY21: 23.2%) and 10.7% (FY21: 3.6%) of brokerage revenues respectively.
- With the fall in recurring revenue, efficiency ratio has risen notably on a timeline (Q1'FY23: 134.5%; FY22: 100.2%, FY21:78.8%).
- IMS' profitability has depicted volatility over the years, moving in tandem with stock market volumes. As a result, RoAE is volatile, improving over two-year period (FY20-21) before falling to -21.8% and -13.4% in FY22 and Q1'FY23 respectively.

- Going forward, IMS's overall profitability is expected to remain under pressure, given expectations on market volumes. As a result, the Company's brokerage income is likely to remain depressed. Furthermore, dividend income is also likely to remain depressed, given corporate profitability being weighed down by significantly high financing burden and imposition of super tax on major industries.

The relatively higher financial risk profile has been incorporated into the ratings

Liquidity Risk

- IMS's liquidity risk profile is supported by adequate coverage of liabilities by liquid assets on the balance sheet which stood at 112.1% as of Sep'22 (Jun'22: 128.7%; Jun'21: 136.9%).
- Liquid assets comprise short term investment (proprietary book) of Rs. 215.7m as at Sept'22 (Jun'22: 244.5m; Jun'21: 49.9m). The remaining are cash and deposits with NCCPL and banks.

Credit Risk

Table 4: Asset Mix

Figures in PKR' Millions	Jun'21	Jun'22	Sept'22
Non-Current Assets	77.9	62.2	62.4
- Long-term Investments	30.1	30.1	30.1
- Others	47.8	32.1	32.3
Current Assets	1,596.6	1,139.5	1,109.4
- Trade Debts	374.5	406.3	383.7
- Advances, Deposits, Prepayments etc.	581.4	96.5	126.4
- Proprietary Investments	49.9	244.5	215.7
- Cash & Bank Balances	298.0	170.7	152.1
- Receivable against Margin Financing	177.2	129.1	138.2
- Short term loans	61.5	42.6	42.6
- Taxation	54.1	49.8	50.7

- Credit risk mainly emanates from its trade debt portfolio, is equivalent to 47.3% of the Company's equity base as of Sept'22 (Jun'22: 47.8%). However, aging profile of client balances is indicative of low credit risk, with 85.1% of the amount outstanding for a period of less than equal to 3 month as at Jun'22.
- Furthermore, as of Jun'21, 20% of the trade debts were outstanding against related parties and the Company was holding capital securities having fair value of Rs. 1.8b owned by client, as collateral against trade debts.
- In addition the Company also has a short term loan outstanding against an ex-client, of which the outstanding balance was Rs. 42.6m as of Sep'22. The amount is secured against a commercial plot in Peshawar.

Market Risk

- Short term investment has increased significantly during the period under review and amounted to Rs. 215.7m as of Sep'22 (Jun'22: Rs. 244.5m; Jun'21: Rs. 49.9m). About ~10% of the short term investments are vested in mutual funds and the rest comprise listed equity securities. The listed equities portfolio depicts significant scrip-wise concentration, with more than half (56%) of the portfolio comprising only two scrips as of Sep'22. It is pertinent to mention that both these scrips were issuance of blue chip entities. Overall composition of the equities portfolio is concentrated in blue chip entities.

- Short term investments to equity stood at 26.6% as of Sep'22 (Jun'22: 28.8%; Jun'21: 4.7%). Accordingly exposure to market risk has increased on a timeline. As such, there is no limit to equity market exposures; going forward, instituting a limit would enhance disciplined investment decision making.

Given contraction in equity and new debt on balance sheet, gearing has increased

Table 6: Capitalization (In PKR' Millions, unless stated otherwise)

	Jun'21	Jun'22	Sept'22
Total Equity	1,058.5	850.4	810.6
- Paid-up Capital	503.4	503.4	503.4
- Unappropriated Profit	555.1	347.0	307.2
Short term debt	-	134.2	131.4
Gearing (x)	-	0.16	0.16
Leverage (x)	0.58	0.41	0.45

- Equity base of the Company deteriorated during the period under review, given losses incurred. On the other hand, the Company also took out short term loan from a commercial bank, with a spread of 2-5% above the benchmark rate for working capital requirements.
- Given the contraction in equity and the addition of loan, the Company now has a gearing ratio of 0.16x. As per management, the short term loan is likely to remain in place over the short to medium term horizon.

Corporate governance infrastructure is reflective of Company's operational status as an unlisted entity

- As of Jun'22, the Board of Directors (BoD) is represented by four members, inclusive of an independent director and a female member. Furthermore, two independent directors were also taken on board during Q1'FY23.
- The Company's organizational structure comprises 6 business function, 1 operational function (Research), 2 support functions (IT & Finance).
- Policy framework of the Company is published and is routinely reviewed. The following key policies, which have been shared with VIS are as follows:
 - Employees Capital Markets Policy
 - Margin Policy
 - Standard Commission
 - Underwriting Policy

Intermarket Securities Limited (IMS)

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix I
BALANCE SHEET	<u>30-Jun-21</u>	<u>30-Jun-22</u>	<u>30-Sept-22</u>
Property, Plant & Equipment	28.8	23.9	23.9
Trade Debts	374.5	406.3	383.7
ST Investments	49.9	244.5	215.7
LT Investments	30.1	30.1	30.1
Cash and Bank balances	298.0	170.7	152.1
Total Assets	1674.5	1201.7	1171.8
Trade and Other Payables	608.7	205.2	219.7
Long Term Loans (including CM)	0.0	0.0	0.0
Short Term Borrowings	0.0	134.2	131.4
Paid Up Capital	503.4	503.4	503.4
Total Equity (including director's loan in FY19)	1058.5	850.4	810.6
INCOME STATEMENT	<u>FY21</u>	<u>FY22</u>	<u>Q1'FY23</u>
Total Revenue	540.0	296.4	56.4
<i>Brokerage Income</i>	479.4	246.0	50.9
<i>Dividend income</i>	2.5	9.3	0.5
<i>Underwriting & FAS</i>	19.4	13.7	0.2
<i>IPO commission</i>	0.0	0.0	0.0
<i>MFS Income</i>	38.7	27.4	4.7
Administrative Expenses	(364.6)	(275.1)	(68.2)
Finance Cost	(12.2)	(21.8)	(7.7)
Profit Before Tax	234.7	(193.8)	(39.8)
Profit After Tax	190.7	(208.1)	(39.8)
RATIO ANALYSIS	<u>30-Jun-21</u>	<u>30-Jun-22</u>	<u>30-Sept-22</u>
Commission Income / Turnover (Paisa/Share)	0.07	0.08	NA
Liquid Assets to Total Liabilities (%)	136.9%	128.7%	112.1%
Liquid Assets to Total Assets (%)	50.4%	37.6%	34.5%
Short term investments to Equity	4.7%	28.8%	26.6%
Total investments to Equity	7.6%	32.3%	30.3%
Leverage (x)	0.58	0.41	0.45
Gearing (x)	0.00	0.16	0.16
Current Ratio (x)	2.59	3.27	3.09
Efficiency (%)	69.8%	100.2%	134.5%
ROAA (%)	13.8%	-14.5%	-13.4%
ROAE (%)	19.8%	-21.8%	-19.2%

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
	03-Feb-23	A-	A-2	Stable	Maintained
	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.				
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Due Diligence Meeting Conducted	Name	Designation		Date	
	Raza Jafri	Head of Equities		December 30, 2022	
	Syed Muhammad Kabeer Ali	Senior Manager Finance			
	Muhammad Younus	Head Of Operations			