

RATING REPORT

Intermarket Securities Limited

REPORT DATE:

August 13, 2024

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/ Rating Watch	Rating Watch Developing		Stable	
Rating Date	August 13, 2024		Feb 03, 2023	
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. Mubammad Uraib Bilwani- 49%</i>	

APPLICABLE METHODOLOGY (IES)

VIS Entity Rating Criteria Methodology – Securities Firms Ratings
<https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.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.

Mr. Wajid Hussain has been the CEO of Intermarket securities for the past 7 years. He has over 25 years of experience of capital markets in Pakistan.

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.

Scheme of Arrangement

IMS is currently in the final stage of acquisition and merger with and into EFG Hermes Pakistan Limited. The scheme of arrangement has been duly approved by Securities & Exchange Commission of Pakistan (SECP) and Competition Commission of Pakistan (CCP) and now awaiting Court approvals. Under the scheme, the agreed swap ratio for the transaction is 2.16:1 where for every one share of IMS, EFG will issue 2.16 shares to IMS. EFG Hermes will be the surviving entity. EFG Hermes is a listed entity which has been involved in brokerage business since September 1999.

Industry Overview

During FY24, PSX achieved the highest equity market performance globally, with its KSE-100 Index soaring to 78,444.96, a significant increase from 41,452.69 in FY23. The index recorded an impressive annual return of 89% in PKR terms and 94% in USD terms, led by appreciation of the Pakistani Rupee against the US Dollar. The surge was driven by improved economic indicators such as increased exports and remittances, a notable decline in inflation, and favorable political and financial developments, including the successful completion of the IMF Stand-by Agreement and a smoother transition of government.

Going forward, it is expected that the positive growth momentum will likely continue into FY25, supported by expected earnings growth and the prospect of a new Extended Fund Facility (EFF) with the IMF. The IMF program is expected to further boost market momentum and attract foreign inflows, improving Pakistan's external financial position. However, potential risks, including unexpected devaluation of the PKR and rising international oil prices, could pose challenges. Consecutive policy rate cuts with expectations of further decline in interest rates is likely to support market volumes.

Table 1: Industry Trading Metrics – KSE 100 All share

	FY19	FY20	FY21	FY22	FY23	9MFY24
Volume (In Billions)	37	49	131	73	47	84
Value (In PKR' Billions)	1,549	1,789	4,781	2,406	1,504	2,713

Key Rating Drivers

Rating takes into account strong market share of IMS

- IMS can be categorized as medium sized brokerage company, accounting for 7% of the market share throughout the industry. The Company market share shows an upward trend led by higher volumes supported by increased number of clients.

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

	FY20	FY21	FY22	FY23	HFY24
Market Share	4.44%	4.47%	3.78%	6%	7%

- The Company is anticipating further increase in market share once the merger with EFG Hermes is complete.

Higher brokerage revenues

Table 3: P&L Statement (Extract)

Figures in PKR' Millions	FY22	FY23	9MFY24
Operating Revenue	296.4	272.8	494.3
- Brokerage Income	246.0	222.9	403.8
- Dividend Income	27.4	9.0	12.2
- Underwriting and Financial advisory service revenue	9.3	6.7	5.7
- Markup on Margin Financing	13.7	34.1	72.6
Operating Expense	(275.1)	(276.1)	(355.0)
Operating Profit/ (loss)	21.3	(3.3)	139.3
<i>Efficiency ratio (Operating Expense / Operating Revenue)</i>	<i>100.2%</i>	<i>121.6%</i>	<i>85.4%</i>
Profit before Tax	(193.8)	(146.9)	334.8
Profit After Tax	(208.1)	(138.3)	303.6
ROAE	(21.8%)	(17.7%)	35.1%

- The earning profile of the Company witnessed improvement in 9MFY24 owing primarily to uptick in core brokerage revenues followed by increase in margin financing income as well as dividend income, which collectively contributed to reversing the company's negative bottom line. Subsequently, the Company posted a profit after tax of Rs.303.6m (FY23: Rs. (138.3 m)) in 9MFY24.
- Brokerage income (primarily retail brokerage) represents major proportion of the Company's revenue. With the merger with EFG Hermes, management expects revenue boost arising from addition of foreign institutional clients which has remained a forte of EFG Hermes.
- During the year, the Company opened two new branches and is now focusing on increasing its online customer base. At present, the Company has a total of 3,258 clients at end HFY24. However, total number of clients are expected to increase subsequent to the merger.
- Operational efficiency of the Company improved during the period under review. Cost to income ratio, albeit remaining high, witnessed improvement to 85.4% (FY23: 121.6%, FY22: 100.2%).
- Going forward, further improvement in core brokerage income, diversity in revenues along with maintenance of operational efficiency will remain important for ratings.

Rating also takes into account financial risk indicators**Liquidity Risk**

- Liquidity profile remains satisfactory despite witnessing deterioration on timeline basis. Liquid assets as a percentage of total liabilities stood at 83% (FY23: 94%, FY22: 128.7%) end-9MFY24 due to increase in trade payables and short term borrowings.

Market Risk

- Market risk of the Company is elevated with short term investments/equity at 52.2%. During the year, the Company's active participation in proprietary trading led to increase in overall short term investments to Rs.529.9m at end-9MFY24 (Jun'23: Rs.191.9m; Jun'22: Rs.244.5m).
- Market risk is considered manageable at these levels.

Higher equity base**Table 3: Capitalization (In PKR' Millions, unless stated otherwise)**

	FY22	FY23	9MFY24
Total Equity	850.4	712.1	1015.7
- Paid-up Capital	503.4	503.4	503.4
- Unappropriated Profit	347.0	208.7	512.3
Short term debt	134.2	376.1	451.1
Gearing (x)	0.16	0.55	0.46
Leverage (x)	0.41	1.06	1.36

- Equity base of the Company was reported higher at Rs.1,015.7m (FY23: Rs.712m) end-9MFY24 owing to improvement in profitability.
- End-9MFY24, the Company utilized its short-term running finance facility to build its propriety book, leading to higher leverage and gearing of 1.36x at end-9MFY24 (FY23: 1.06x) and 0.46 respectively, albeit remaining within reasonable ranges.
- Maintenance of capitalization profile will remain important for ratings.

Improvements expected in corporate structure

- During the period under review, there were no major changes in senior management of the Company. The Company's governance framework is considered sound. However, change in board members and senior management is anticipated once the operational merger is complete.
- Ratings draw comfort from enhancements in corporate structure, governance framework, internal controls and disclosure levels post implementation of the merger whereby the surviving entity will be a listed entity.

Intermarket Securities Limited (IMS)

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix I
BALANCE SHEET	31-Mar-24	30-Jun-23	30-Jun-22
Property, Plant & Equipment	40.9	21.1	23.9
Trade Debts	785.6	310.2	406.3
ST Investments	529.9	191.9	244.5
LT Investments	30.1	30.1	30.1
Cash and Bank balances	405.3	434.0	170.7
Total Assets	2395.2	1463.8	1201.7
Trade and Other Payables	865.0	335.8	205.2
Long Term Loans (including CM)	15.6	18.4	0.0
Short Term Borrowings	451.1	376.1	134.2
Paid Up Capital	503.4	503.4	503.4
Total Equity	1015.7	712.1	850.4
	9MFY24	FY23	FY22
Total Revenue	494.3	272.8	296.4
<i>Brokerage Income</i>	<i>403.8</i>	<i>222.9</i>	<i>246.0</i>
<i>Dividend income</i>	<i>12.2</i>	<i>9.0</i>	<i>27.4</i>
<i>Underwriting & FAS</i>	<i>5.7</i>	<i>6.7</i>	<i>9.3</i>
<i>MFS Income</i>	<i>72.6</i>	<i>34.1</i>	<i>13.7</i>
Administrative Expenses	(355.0)	(276.1)	(275.1)
Finance Cost	(67.4)	(55.7)	(21.8)
Profit Before Tax	334.8	(146.9)	(193.8)
Profit After Tax	303.6	(138.3)	(208.1)
RATIO ANALYSIS			
Liquid Assets to Total Liabilities (%)	83.1%	94.2%	128.7%
Liquid Assets to Total Assets (%)	47.9%	48.4%	37.6%
Short term investments to Equity	52.2%	26.9%	28.8%
Total investments to Equity	55.1%	31.2%	32.3%
Leverage (x)	1.36	1.06	0.41
Gearing (x)	0.46	0.55	0.16
Current Ratio (x)	1.70	1.87	3.27
Efficiency (%)	85.4%	121.6%	100.2%
ROAA (%)	15.7%	-10.4%	-14.5%
ROAE (%)	35.1%	-17.7%	-21.8%

REGULATORY DISCLOSURES

Appendix II

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 Watch	Rating Action
	13-Aug-24	A-	A-2	Rating Watch-Developing	Maintained
	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	N/A				
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Due Diligence Meeting Conducted	Name	Designation		Date	
	Wajid Hussain	CEO		July 04, 2024	
	Umar Farooque	Senior Manager Finance			
	Muhammad Asif Malik	Deputy Manager Finance			