

RATING REPORT

Integrated Equities Limited

REPORT DATE:

August 21, 2024

RATING ANALYSTS:

Shaheryar Khan Mangan
shaheryar@vis.com.pk

RATING DETAILS		
Rating Category	Initial Ratings	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook/Rating Watch	Stable	
Rating Date	August 21, 2024	
Rating Action	Initial	

COMPANY INFORMATION

Incorporated in July 2008	External auditors: BDO Ebrahim Co. Chartered Accountants
Unlisted Public Limited Company	Chief Executive Officer: Mr. Sardar Ali Wattoo
Key Shareholders (with stake 5% or more):	Chairperson of the Board: Mrs. Sadia Ali
<i>Mr. Sardar Ali Wattoo ~ 93%</i>	
<i>Ms. Sadia Ali ~ 7%</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>

Integrated Equities Limited (IEL)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Integrated Equities Limited (IEL) was incorporated in 2008 under the Companies Ordinance 1984 as a private limited company which was later converted to an unlisted public limited company in 2016.

IEL is registered with Securities & Exchange Commission of Pakistan and holds Trading Rights Entitlement Certificate (TREC) issued by Pakistan Stock Exchange Limited (PSX) for Trading and Self-Clearing Services.

Major shareholding of the Company (93%) is vested with Mr. Sardar Ali Wattoo who serves in the capacity of Chief Executive Officer (CEO) and is also the co-founder of the Company. Mr. Sardar has over 3 decades of experience of project developments, financial and business management. He has held various titles such as COO at JS Private Equity, head of corporate finance at CF Crosby, and group director finance at First capital.

Company Profile

Integrated Equities Limited (IEL) was incorporated in 2008 under the Companies Ordinance 1984 as a private limited company which was later converted to an unlisted public limited company in 2016. IEL offers equity brokerage, research, investment banking and project advisory services. IEL is affiliated with the Aequitas Group which came into creation with the acquisition of Pakistan Credit Rating Agency Limited (PACRA) in 2003. The group also includes other associated companies, such as Tasdeeq, Pakistan's first licensed credit bureau; Media Monitors Pakistan, which specializes in ad tracking, content monitoring, and media archiving; and Gulab.pk, an online nursery offering plants, fruit trees, climbers, organic fertilizers, and seeds.

IEL is a licensed Consultant to the Issue, Securities Adviser and Futures Adviser and also has a license for Authorized Intermediary, in addition to a registered Research Entity with Securities & Exchange Commission of Pakistan (SECP).

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 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 All share

	FY19	FY20	FY21	FY22	FY23	FY24
Volume (In Billions)	37	49	131	73	47	112
Value (In PKR' Billions)	1,549	1,789	4,781	2,406	1,504	3,796

Profitability profile

- Operating revenue mix of the Company is fairly diversified relative to peers of similar size with advisory and consultancy fees, contributing ~45% on average to total revenues over the last three years and showing an upward trend year over year.
- Brokerage revenues, on the other hand, have fluctuated in line with the market activity. During FY23, amidst a downturn in the stock market, the Company reported lower brokerage revenue. However, subsequently, the resurgence in market volumes and

increased trading activity during 9MFY24 spurred growth in the Company's brokerage revenue. Nevertheless, revenues of the Company remain small.

- The Company's client mix is predominantly retail. Off the total 552 clients, about 8% are classified as high net worth individuals and 16% as institutional clients. Within the institutional segment, Institutional Delivery System (IDS) clients constitute approximately 79%.
- Client concentration, however, is on the higher side with top 10 clients accounting for 52.6% of the traded volume.
- The Company's operations are constrained by its size, but it plans to expand geographically and enhance its institutional client base. Additionally, the Company is working on several mandates on the advisory front which is expected to boost its revenue base.
- However, operational efficiency stood at an average ~78% over the last three years, indicating room for improvement.
- The Company also reported significant uptick in profits in 9MFY24, largely driven by an unrealized gain of Rs. 79.9 million from the remeasurement of investment property in Lahore. This property is intended for future development to generate rental income.

Table 2: P&L Statement (Extract)

Figures in PKR' Millions	FY22	FY23	9MFY24
Operating Revenue	74.6	62.4	60.5
- Brokerage Income	44.0	20.5	36.2
- Advisory and consultancy fees	28.8	38.1	21.7
- Dividend Income	1.8	3.8	2.7
Operating Expenses	(55.4)	(54.2)	(55.8)
Operating Profit/ (loss)	19.2	8.2	4.7
Other income	11.9	10.1	4.9
Capital gains	(3.2)	(0.5)	19.0
Unrealized gain/loss on re-measurement	5.3	(9.2)	(2.3)
Unrealized gain on investment property	8.7	6.9	79.9
Finance cost	(1.6)	(2.9)	(1.6)
Efficiency ratio	69.6%	80.7%	85.3%
Profit before Tax	40.3	12.7	106.3
Profit After Tax	35.9	8.9	102.1
ROAE	19.0%	4.5%	50.8%

Liquidity Risk

- The liquidity profile of the Company is considered adequate, with liquid assets to liabilities providing ~100% coverage on average. The Company's liquid assets, which consist of mainly short-term investments, cash, and NCCPL (National Clearing Company of Pakistan Limited) deposits, are sufficient to cover its total liabilities.

Credit Risk

- Credit risk is considered low given that no extension of credit limits by the Company. Also, IDS proportion also provides comfort. Ageing of receivables is considered satisfactory.

Market Risk

- The Company does not engage in proprietary investments, thus limiting the impact of market risk. The Company's short term investment comprises primarily of equity securities and accounted for a nominal 3.4% of equity as at March'24.
- Long term investments are mainly of strategic nature in associated concerns.

Capitalization Profile

Table 3: Capitalization (In PKR' Millions, unless stated otherwise)

	Jun'22	Jun'23	Mar'24
Total Equity	194.0	202.8	331.9
- Paid-up Capital	130.0	130.0	130.0
- Unappropriated Profit	64.0	72.8	201.9
Subordinated loan	6.2	6.2	6.2
Gearing (x)	0.03	0.03	0.02
Leverage (x)	0.41	0.67	0.38

- The Company's capitalization profile shows consistent growth in its equity base over time. In 9MFY24, this growth was particularly strong, largely due to a substantial unrealized gain on investment property. However, despite this positive trend, the Company's equity base remains relatively smaller compared to its peers.
- The Company's capitalization is further supported by its unleveraged balance sheet, with borrowings primarily consisting of sponsor loans.

Governance Structure

- The governance profile of the Company is considered sound. The current board of directors comprises five members, including one independent director and two female representatives, contributes to diversity and balanced decision-making. In addition, the Company also has an advisory Board in place.
- The governance framework includes two key board-level committees: the Audit Committee and the Compliance & Risk Management Committee, both of which are chaired by independent directors. This independent oversight strengthens the governance structure. The Company's disclosure levels are robust, which bolsters transparency. The ongoing development of an integrated ERP platform is expected to elevate client services, facilitate client relationships in a positive aspect. Regarding internal controls and regulatory compliance, the Company maintains a sound regulatory control framework. However, enhancing the scope of internal policies may further enhance the internal framework.

Integrated Equities Limited (IEL)

FINANCIAL SUMMARY (amounts in PKR millions)					Appendix I
BALANCE SHEET	FY20	FY21	FY22	FY23	9MFY24
Trade Debts	14.8	32.7	14.5	32.0	31.3
Intangible Asset	2.5	2.5	2.5	2.5	2.5
Deposits and Prepayments	40.2	158.2	28.5	17.5	63.4
Long Term Investments	66.0	65.4	69.2	51.1	47.3
Proprietary Book	0.0	4.5	8.3	11.4	11.3
Cash and Bank balances	91.1	49.4	66.0	128.3	67.3
Taxation (refundable)	0.9	0.0	0.0	0.0	0.0
Total Assets	257.3	369.6	273.1	339.7	456.4
Trade and Other Payables	92.8	164.5	70.7	129.5	114.8
Long Term Loans	3.7	10.1	6.2	6.2	6.2
Short Term Loans	7.3	9.1	0.0	0.0	0.0
Total Liabilities	104.2	186.8	79.1	136.9	124.5
Paid up Capital	130.0	130.0	130.0	130.0	130.0
Net Worth	153.1	182.8	194.0	202.8	331.9
INCOME STATEMENT	FY20	FY21	FY22	FY23	9MFY24
Operating Revenue	45.3	70.7	74.6	62.4	60.5
Administrative & Operating Expenses	38.3	58.8	55.4	54.2	55.8
Finance Cost	0.7	1.3	1.6	2.9	0.0
Profit/(Loss) Before Tax	16.1	34.5	40.3	12.7	106.3
Profit After Tax	11.7	29.7	35.9	8.9	102.1
RATIO ANALYSIS	FY20	FY21	FY22	FY23	9MFY24
Liquid Assets to Total Liabilities (%)	101.4%	98.9%	120.1%	102.9%	99.5%
Liquid Assets to Total Assets (%)	41.1%	50.0%	34.8%	41.5%	27.1%
Current Ratio (x)	1.47	1.39	1.61	1.45	1.46
Leverage (x)	0.68	1.02	0.41	0.67	0.38
Gearing (x)	0.07	0.10	0.03	0.03	0.02
Efficiency (%)	76.1%	79.3%	69.6%	80.7%	85.3%
Prop book to Equity (%)	0.0%	2.5%	4.3%	5.6%	3.4%
ROAA (%)	8.4%	9.5%	11.2%	2.9%	34.1%
ROAE (%)	14.2%	17.7%	19.0%	4.5%	50.8%

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Integrated Equities Limited (IEL)				
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
	8/21/2024	A-	A-2	Stable	Maintained
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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Due Diligence Meeting Conducted	Name	Designation	Date		
	Mr. Sardar Ali Wattoo	Chief Executive Officer	August 02, 2024		
	Mr. Muhammad Iqbal Hussain	Chief Compliance Officer			