

RATING REPORT

Foundation Securities (Private) Limited

REPORT DATE:

January 25, 2022

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 - Developing | | Stable | |
| Rating Date | January 25, 2022 | | May 25, 2021 | |

COMPANY INFORMATION

| | |
|--|--|
| Incorporated in 2005 | External auditors: Grant Thornton Anjum Rahman |
| Private Limited Company | Chairman of the Board: Brig. Sabir Ali (Retd) |
| Key Shareholders (with stake 5% or more): | Chief Executive Officer: Syed Ahmad Abbas Zaidi |
| Fauji Foundation Pakistan – 95.74% | |

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017)

<http://vis.com.pk/kc-meth.aspx>

Foundation Securities (Private) Limited

OVERVIEW OF THE INSTITUTION

Foundation Securities Private Limited (FSL) was incorporated as a private limited company in January 2005, under the Companies Ordinance 1984. The company holds a Trading Right Entitlement Certificate (TREC) of Pakistan Stock Exchange (PSX) and is a member of Pakistan Mercantile Exchange (PMEX).

External auditors are 'Grant Thornton Anjum Rahman'.

Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Profile of Chairman

Brig. Sabir Ali (Retd) is the Chairman of the Board of FSL. Apart from his capacity as Chairman, he also holds the position of Corporate Secretary of Fauji Foundation.

Profile of CEO & MD

Mr. Syed Ahmad Abbas Zaidi is currently serving as a CEO and MD of FSL. Mr. Zaidi has an experience of more than 14 years in equities related operations. His stint with international and local market names like ABN AMRO Equities, W.I Carr Indosuez Securities and First Capital Securities earned him vast exposure to operations, risk, compliance, accounts and finance.

RATING RATIONALE

Incorporated in 2005, Foundation Securities Private Limited (FSL) is a subsidiary of Fauji Foundation Pakistan. The group has strategic investments in various sectors including fertilizer, power, cement, infrastructure, banking, financial services, consumer goods, oil & gas and others. FSL is primarily engaged in retail and institutional equity brokerage services with marginal presence in commodity segment. Presently, the company runs its operations through its head-office based in Karachi along with 2 branches in Lahore and Islamabad.

FSL has a strategic relationship with Macquarie Capital Securities Limited; an affiliate of global financial institution Macquarie Group. The partnering arrangement focus on in-bound and out-bound equity markets transactions besides other areas including mergers and acquisitions, and corporate finance advisory work.

Rating Rationale:

Amalgamation of Askari Securities Limited in Foundation Securities

The revision in outlook takes into account the amalgamation of Askari Securities Limited (ASL) with and into FSL. ASL, a securities brokerage company, is a wholly owned subsidiary of Askari Bank Limited (AKBL). The amalgamation will entail transfer of complete undertaking of ASL with FSL, together with all properties, assets, liabilities and obligations of every description. The shares of ASL will be cancelled and for each share held in ASL by AKBL as a holder of 100% shares, twenty-seven million one hundred and forty thousand (27,140,000) shares of FSL will be issued to AKBL i.e. for every one (1) share of ASL of PKR 10 held by AKBL, one point one eight (1.18) ordinary shares of FSL of PKR 10 each will be allotted to AKBL. ASL will then dissolve without winding up.

The outlook on the rating has been revised in accordance with VIS' 'Securities Firm Rating' Methodology and VIS' 'Criteria for Rating Watch'. Ratings will be reviewed once amalgamation is finalized and consolidated financial statements are made available.

Foundation Securities (Private) Limited

Appendix I

| <u>BALANCE SHEET</u> | Jun'19 | Jun'20 | Jun'21 | Sept'21 |
|--|---------------|----------------|----------------|----------------|
| Trade Debts | 113.1 | 291.2 | 161.1 | 336.8 |
| Deposits and Prepayments | 152.4 | 54.8 | 272.3 | 140.8 |
| Long Term Investments | 17.2 | - | - | - |
| Proprietary Book | 0.3 | 41.6 | 29.9 | 24.9 |
| Cash and Bank balances | 333.1 | 638.6 | 812.3 | 927.0 |
| Taxation | 117.1 | 106.6 | 68.4 | 64.1 |
| Total Assets | 774.8 | 1,171.2 | 1,364.5 | 1,510.4 |
| Trade and Other Payables | 383.8 | 854.2 | 915.3 | 705.2 |
| Long Term Loans | 38.4 | 43.9 | - | - |
| Short Term Loans – Secured | 118.0 | - | - | 298.2 |
| Total Liabilities | 552.7 | 912.1 | 967.4 | 1,143.4 |
| Paid-up Capital | 304.6 | 304.6 | 304.6 | 304.6 |
| Net Equity | 222.1 | 259.0 | 397.1 | 367.0 |
| <u>INCOME STATEMENT</u> | FY19 | FY20 | FY21 | 1Q'FY22 |
| Brokerage Income | 143.8 | 207.2 | N.A | N.A |
| Consultancy Service | 0.5 | 0.4 | - | - |
| Research | 0.7 | - | - | - |
| Commodities | 0.2 | - | - | - |
| Profit from Saving Accounts | 17.3 | 40.6 | N.A | N.A |
| Operating Revenues | 162.7 | 248.3 | 476.5 | 79.1 |
| Administrative Expenses | 185.2 | 182.0 | 306.0 | 61.2 |
| Finance Cost | 8.5 | 15.9 | 19.0 | 1.7 |
| Profit Before Tax | (22.9) | 62.7 | 216.4 | 21.9 |
| Profit After Tax | (18.2) | 40.3 | 161.3 | 15.6 |
| <u>RATIO ANALYSIS</u> | FY19 | FY20 | FY21 | 1Q'FY22 |
| Liquid Assets to Total Liabilities (%) | 60.3% | 74.6% | 87.1% | 83.3% |
| Liquid Assets to Total Assets (%) | 43.0% | 58.1% | 61.7% | 63.0% |
| Current Ratio (x) | 1.41 | 1.32 | 1.39 | 1.31 |
| Debt Leverage (x) | 2.49 | 3.52 | 2.44 | 3.12 |
| Gearing (x) | 0.70 | 0.17 | 0.12 | 0.95 |
| Efficiency (%) | 114.8% | 75.8% | N.A | N.A |
| ROAA (%) | (2.1%) | 4.1% | 12.7% | 4.3%* |
| ROAE (%) | (8.1%) | 16.8% | 49.2% | 16.3%* |
| *Annualized | | | | |

ISSUE/ISSUER RATING SCALE & DEFINITIONS

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 | Foundation Securities (Private) Limited | | | | |
| Sector | Brokerage | | | | |
| Type of Relationship | Solicited | | | | |
| Purpose of Rating | Entity Rating | | | | |
| Rating History | Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
| | RATING TYPE: ENTITY | | | | |
| | 25-January-2021 | A- | A-2 | Rating Watch - Developing | Maintained |
| | 25-May-2021 | A- | A-2 | Stable | Maintained |
| | 22-April-2020 | A- | A-2 | Stable | Maintained |
| | 1-April-2019 | A- | A-2 | Negative | Maintained |
| 1-Nov-2017 | A- | 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 Meetings Conducted | Name | Designation | Date | | |
| | NA | NA | NA | | |