RATING REPORT

Foundation Securities (Private) Limited

REPORT DATE:
October 26, 2022

RATING ANALYST:
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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	Rating Watch – Developing		Rating Watch – Developing	
Rating Date	*October 26, 2022*		*January 24, 2022*	

COMPANY INFORMATION	
Incorporated in 2005	**External auditors:** Grant Thornton Anjum Rahman
Private Limited Company	**Chairman of the Board:** Brig. Aamir Hussain Mirza (Retd)
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Syed Ahmad Abbas Zaidi
Fauji Foundation Pakistan ~100%	

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. Aamir Hussain Mirza (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 15 years in equities related operations. His stint with

RATING RATIONALE

Foundation Securities Private Limited (FSL), subsidiary of Fauji Foundation, offers equity brokerage services with a limited presence in commodity segment and caters to domestic retail and institutions, high net worth individuals, and foreign broker dealers. Headquartered in Karachi, there are two branches located in Lahore and Islamabad. At present, total staff strength stands at 95+ employees.

Update on amalgamation of Askari Securities Limited with and into FSL.
The merger of Askari Securities Limited (ASL), wholly owned subsidiary of Askari Bank Limited, with and into FSL entails transfer of ASL's entire undertaking including all properties, assets, liabilities, and obligations of any kind; approval is currently being sought from Sindh High Court. Rating outlook hence remains on 'Rating Watch - Developing,' and will be reviewed once the amalgamation is completed and consolidated financial statements are made available.

FSL currently holds a 'Trading & Self-Clearing' brokerage license; however, management intends to acquire a 'Trading & Clearing' license following the merger with the increased capital to diversify its revenue base.

Key Rating Drivers:

Post two-years of improving trends, PSX volumes fell in FY22, constraining brokerage industry profitability, particularly for less revenue-diversified firms.
Following PSX's historic performance in terms of volumes in FY21, overall trading volumes dropped ~44% in FY22 (average daily volume dropped to 291m from 527mn). The drop in trading volumes was primarily due to the country's weak macroeconomic environment, which included high inflation and interest rates, as well as rupee depreciation and political turmoil. As a result, brokerage revenues fell in tandem with trading volumes across the industry. This has harmed the profitability of brokerage firms, with some reporting net losses.

Table: Industry Trading Metrics - Ready

PSX Data (Ready + Future)	FY18	FY19	FY20	FY21	FY22
Volume (In Billions)	43	37	49	131	73
Value (In PKR' Billions)	2,027	1,549	1,789	4,781	2,406

Uncertainty on the economic and political fronts is expected to keep the sector's trading volumes and profitability under pressure in the ongoing year. To maintain a positive bottom line, brokerage firms are advised to cut operating expenses and diversify their revenue base.

PSX's recent initiatives to improve the ease of doing business.
PSX has digitized the listing process through an online portal named as PRIDE, Public Offerings Revolutionized through an Integrated and Digitized Experience, in order to improve capital raising and provide convenience to businesses. The portal is designed to automate

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.

entire listing process, as well as provide listed companies with delisting services. In terms of new product development, PSX introduced its first dividend-based index, which tracks the performance of the top 20 dividend-paying stocks.

Strong sponsor strength and strategic relationship with an international institution.
Assigned ratings continue to draw comfort from strong sponsor profile of Fauji Foundation (FF), one of Pakistan's biggest conglomerates with sizeable financial strength and presence in diversified business sectors. FSL also has a strategic partnership with Macquarie Capital Securities Limited, an affiliate of global financial institution, Macquarie Group. The collaboration focuses on in-bound and out-bound equity market transactions, mergers and acquisitions, and corporate finance advisory work.

Market share has declined; future strategy is to expand retail footprint by leveraging digital platforms.
In FY22, FSL's market share (in volumetric terms) fell to 4.7% (FY21: 5.8%; FY20: 6.6%). The retail client base currently stands at 15K+ individuals (of which 40% are active, including around 1K+ HNWI), up 8% from the previous year. Management believes that following the merger with ASL, the company's market share will increase to around 7%, with an additional 4K+ client base. Going forward, future business plan is to continue expanding retail footprint by leveraging digital platforms.

Amid low market volumes, FSL managed to post positive bottom-line. Diversification in revenue sources would lower volatility risk in earning profile.
FSL's revenues nearly reduced by half in line with the industry trend of subdued market volumes. Equity brokerage remained the most important segment, accounting for ~80% of total recurring revenues, with the remainder mainly comprising profit on saving accounts and income on deposits to regulators. Retail clientele accounts for around four-fifth of brokerage income while the remaining is generated from domestic institutions and foreign corporates. Brokerage income is reported at Rs. 37m during 1Q of the ongoing year; the same is expected to remain under pressure due to weak macro-economic indicators.

Administrative overheads have risen significantly, owing primarily to increases in salaries, rental charges, and other trading-related costs. Thus, cost-income ratio has weakened to 80.3% (FY21: 58.1%) in FY22.

Conservative asset allocation combined with small proprietary book results in a low liquidity and market risk.
The company follows a conservative asset allocation strategy, with cash and bank balances accounting for more than 50% of its asset base; liquid assets coverage of liabilities is deemed adequate. Ageing of trade debts is indicative of low credit risk with around three-fourth of receivables outstanding for less than 90 days. In line with best practices, board discourages keeping a proprietary book thus; short-term investment to equity ratio is only 4%.

Low-leveraged capital structure
Equity of the company fell to Rs. 365m (FY21: Rs. 397m) in FY22, attributable to sizeable payout and low profitability. There is no fixed dividend policy in place, and the decision is made by the board each year based on financial position. The company has running finance line and bank guarantee of Rs. 400m available for working capital needs, which largely remained unutilized during the year. ASL will provide an additional Rs. 200m line of credit following the merger. Given limited debt present on balance sheet, leverage ratios are sound. Maintaining capitalization structure is one of the key factor from the ratings perspective.

Sound governance framework
The company has a qualified senior management team in place with extensive experience in the relevant fields and knowledge of brokerage industry. Board level governance is deemed sound; however, there is room for improvement in terms of Board size and addition of independent members. Since last review, there has been no change in senior management team.

Foundation Securities (Private) Limited **Appendix I**

BALANCE SHEET	FY19	FY20	FY21	FY22
Operating Fixed Assets	47.0	27.1	16.3	16.8
Trade Debts	113.1	291.2	161.1	123.8
Deposits and Prepayments	152.4	54.8	272.3	230.4
Proprietary Book	0.3	41.6	29.9	13.7
Cash and Bank balances	333.1	638.6	812.3	518.9
Taxation	117.1	106.6	68.4	64.8
Total Assets	**774.8**	**1,171.2**	**1,364.5**	**977.6**
Trade and Other Payables	383.8	854.2	915.3	549.4
Long Term Loans (*Incl. current maturity*)	38.4	43.9	49.5	55.0
Short Term Loans – Secured	118.0	-	-	-
Total Liabilities	**552.7**	**912.1**	**967.4**	**613.0**
Paid-up Capital	**304.6**	**304.6**	**304.6**	**304.6**
Net Equity	**222.1**	**259.0**	**397.1**	**365.1**
INCOME STATEMENT				
Brokerage Revenue	145.4	207.7	476.5	226.3
Other Income	25.8	55.8	50.3	55.0
Recurring Revenues	**168.7**	**261.1**	**526.8**	**281.3**
Administrative Expenses	185.2	182.0	306.0	225.8
Finance Cost	8.5	15.9	19.0	8.9
Profit Before Tax	**(22.9)**	**62.7**	**216.4**	**30.4**
Profit After Tax	**(18.2)**	**40.3**	**161.3**	**15.9**
RATIO ANALYSIS				
Liquid Assets to Total Liabilities (%)	60.3%	74.6%	87.1%	86.7%
Liquid Assets to Total Assets (%)	43.0%	58.1%	61.7%	54.4%
Current Ratio (x)	1.41	1.32	1.39	1.57
Debt Leverage (x)	2.49	3.52	2.44	1.68
Gearing (x)	0.70	0.17	0.12	0.15
Efficiency (%)	109.8%	69.7%	58.1%	80.3%
ROAA (%)	(2.1%)	4.1%	12.7%	1.4%
ROAE (%)	(8.1%)	16.8%	49.2%	4.2%

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					
	26/Oct/2022	A-	A-2	RW - Developing	Maintained	
	24/Jan/2021	A-	A-2	RW - Developing	Maintained	
	25/May/2021	A-	A-2	Stable	Reaffirmed	
	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 Meeting Conducted	**Name**	**Designation**	**Date**			
	Mr. Zahid Ali Khan	CFO & Company Secretary	Oct 12, 2022			