

RATING REPORT

Foundation Securities (Private) Limited

REPORT DATE:

April 10, 2025

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A2	A	A2
Rating Outlook/Watch	Stable		Stable	
Rating Date	April 10, 2025		January 29, 2024	
Rating Action	Reaffirmed		Upgraded	

COMPANY INFORMATION

Incorporated in 2005	External auditors: Grant Thornton Anjum Rahman
Private Limited Company	Chairman of the Board: Mr. Aziz Ikram
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Syed Ahmad Abbas Zaidi
<i>Askari Bank Limited – 51%</i>	
<i>Fauji Foundation Pakistan ~49%</i>	

APPLICABLE METHODOLOGY (IES)

VIS Entity Rating Criteria Methodology – Securities Firms Ratings

<https://docs.vis.com.pk/Methodologies-2025/SecuritiesFirms.pdf>

VIS Issue/Issuer Rating Scale:

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

Foundation Securities (Private) Limited

**OVERVIEW
OF THE
INSTITUTION**

RATING RATIONALE

Foundation Securities Private Limited (FSL) was incorporated as a private limited company in January 2005, under the Companies Ordinance 1984.

In 2024, the Company has changed its accounting year from June-July to January-December. 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
Mr. Aziz Ikram is the Chairman of the Board of FSL. Apart from his capacity as Chairman, he also holds a position at 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 25 years in equities related operations. His stint with international and

Company Profile:

Foundation Securities Private Limited (FSL) is owned by Askari Bank Limited (the holding Company) and Fauji Foundation Pakistan with stake of 51% and 49% respectively. The Company is primarily engaged in the business of equity and commodities brokerage, equity research and corporate financial advisory services. The company holds a Trading Right Entitlement Certificate (TREC) of Pakistan Stock Exchange (PSX) and is a member of Pakistan Mercantile Exchange (PMEX), with branches in Karachi, Lahore, and Rawalpindi. The Company's registered office is in Karachi.

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., The surge was driven by improved economic indicators such as increased exports and remittances, a notable decline in inflation, and favorable financial developments, including the successful completion of the IMF Stand-by Agreement.

The positive momentum extended into 6MFY25, with the KSE-100 Index reaching a record high of 117,000. This growth was underpinned by sustained economic recovery, monetary easing and a stable currency. The initiation of a three-year Extended Fund Facility (EFF) program with the IMF enhanced investor confidence, while improvements in private sector credit, auto financing, petroleum sales, power generation, exports, and remittances further contributed to market activity. Looking ahead, while the potential risks, including any potential devaluation of the PKR and political uncertainty, could pose challenges, improving macroeconomic indicators along with declining external financing needs are likely to sustain market performance

Table 1: Industry Trading Metrics – KSE All share

	FY19	FY20	FY21	FY22	FY23	FY24	6MFY25
Volume (In Billions)	37	49	131	73	47	112	87
Value (In PKR' Billions)	1,549	1,789	4,781	2,406	1,504	3,796	3,512

Key Rating Drivers:

Assigned ratings draw support from the strength of the Company's sponsors.

- Assigned ratings incorporate support from its sponsors. Askari Bank Limited (AKBL), holding 51.0% of FSL's shareholding, is a scheduled commercial bank and is rated AA+/A1+ by PACRA. The Fauji Foundation Group, comprising of Fauji Foundation (FF), Fauji Fertilizer Company Limited (FFCL) and Fauji Fertilizer Bin Qasim Limited (FFBL), collectively owns 71.91% stake in AKBL. Additionally, Fauji Foundation holds 49.0% of FSL's shareholding and is one of Pakistan's biggest conglomerates, with a diversified presence across business sectors as well as a sizeable financial strength.

A bullish trend in the equity market fueled strong growth in the Company's revenue and profitability profile

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.

Table 2: Diversification in Total Revenues

	CY23*	CY24	CY23*	CY24
	In Rs. Millions			
Brokerage Income	298	588	63%	67%
Profit on Savings Account	140	221	29%	25%
Income on deposits	20	48	4%	5%
Others	38	74	8%	8%
Total Revenue	476	883	100%	100%
<i>*Company has changed its accounting period in 2024 from June to January, therefore the CY23 number are restated from Jan'23 to Dec'23 & CY24 numbers are from Jan'24 to Dec'24</i>				

- During CY24, the Company's revenue grew significantly by approximately 86%, primarily driven by a ~97% surge in brokerage revenue, supported by an industry-wide increase in trading volumes. Brokerage revenue continues to dominate the revenue mix, followed by income from savings accounts, which also increased during CY24, albeit with a reduced share in the overall revenue mix. Currently there are no plans to diversify revenue streams to insulate against cyclical of brokerage income.
- In terms of clientele, brokerage commission primarily stems from domestic retail clients, which accounted for ~87% of the total brokerage income, while remaining were contributed by institutional and foreign clients.
- The Company's market share stands at 5.6%. Additionally, it has a sizeable client base of around 21k, with retail clients dominating the client mix. The Pakistan Stock Exchange (PSX) has ranked the Company seventh among the top ten brokers in terms of most active accounts, as per the latest disclosure. However, 243 clients account for 66% of the total brokerage revenue, posing a high concentration risk.
- The Company plans to launch a direct deposit option for their brokerage account through collaborations with various banks, enabling seamless customer deposits. This initiative is expected to drive the brokerage revenue, going forward. Additionally, the Company has also directed its focus towards online trading and has upgraded its digital platform to expand customer reach through online channels, which currently account for ~24% of the total traded volumes.

Table 3: P&L Extract

	CY23*	CY24
	In Rs. Millions	
Brokerage Revenue	298	588
Others	178	296
Recurring Revenues	476	883
Administrative Expenses	331	506
Finance Cost	8.0	5.3
Profit Before Tax	136	387
Profit After Tax	104	253
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- On the operational front, FSL's operational efficiency improved due to a sizeable uptick in overall revenue, as the cost-to-income ratio declined to ~57% in CY24 (CY23: ~70%).
- Growth in revenue also drove a sharp increase in the Company's profitability, which rose by ~133% to come in at Rs. 253m in CY24 (CY23: Rs. 104.1m).
- Going forward, continued increase in the revenue and profitability profile along with the materialization of the Company's plan will remain important for the rating.

Financial risk indicators are considered adequate.Liquidity Risk:

- FSL follows a conservative asset allocation strategy, with cash and bank balances comprising more than half of the Company's asset base.
- The liquid assets of the Company provide adequate coverage against its total liabilities, as liquid assets to total liabilities stood at 1.15x as at Dec'24 (Dec'23: 1.03x).
- Additionally, the current ratio of the Company was recorded at 1.29x as at Dec'24 (Dec'23: 1.38x).

Credit Risk:

- As at Dec'24, FSL's credit risk is primarily derived from its trade debts, which stood at Rs. 375m (Dec'23: Rs. 433m), and made allowances of Rs. 35m for expected credit losses (Dec'23: Rs. 27m).
- To mitigate exposure to credit risk the Company has developed a formal approval process whereby credit limits are applied to its customers. The management also regularly monitors the credit exposures. Furthermore, the Company has a system of assigning credit limits to its customers based on evaluation of the customer profile and payment history, with customer receivables regularly monitored.
- Aging profile of trade debt is considered satisfactory, with ~92% of the trade debts outstanding for up to 4 days, as confirmed by the management. Additionally, some receivables are secured by way of available securities held in sub-account maintained in CDC.

Market Risk:

- As a practice, the Company does not maintain a significant proprietary portfolio, with short-term investments primarily comprising holdings in the Pakistan Stock Exchange and negligible exposure to two equity securities, thereby resulting in minimal market risk. As at Dec'24, short-term investments in relation to Equity stood at 3.7% (Dec'23: 1.7%).

Capitalization Profile is supported by minimal debt levels and a sizeable equity base

- The Company's equity base has increased through its amalgamation with Askari Securities Limited (ASL), along with sustained profitability over time, with the equity base, excluding revaluation, standing at Rs. 1,016.7 as at Dec'24 (Dec'23: Rs. 814.4m).
- The Company has minimal short-term debt, amounting to Rs. 71.9m as of Dec'24 (Dec'23: Rs. 86.7m), which translates into a gearing of 0.07x (Dec'23: 0.11x). On the other hand, the Company's leverage indicator stood at 3.08x as of Dec'24 (Dec'23: 2.01x). However, after adjusting for customer assets held with banks, leverage stood at 0.50x as at Dec'24 (Dec'23: 0.42x).

Governance framework and Internal Control framework is considered sound

- At present, the Company's board consists of four members, with no independent representation. Additionally, the Company has two board committees namely audit and HR, represented by only two members.
- The Company has employed policies, procedures, and controls for Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFI). The Company conducts audit of AML/CFI on regular basis to independently evaluate the effectiveness of compliance with AML/CFI policies and procedure.

Foundation Securities (Private) Limited

FINANCIAL SUMMARY (Rs. in millions)			Appendix I	
BALANCE SHEET	FY22 (As at June)	FY23 (As at June)	CY23* (As at Dec Restated)	CY24* (As at Dec)
Property, Plant & Equipment	5.4	69.4	66.2	63.9
Trade Debts	123.8	212.7	433.9	375.6
Receivables against MF	-	-	-	-
ST Investments	13.8	10.1	13.7	37.2
LT Investments	-	135.5	143.0	45.4
Cash and Bank balances	518.9	616.8	1,323.1	2,686.1
Total Assets	976.6	1,391.5	2,506.7	4,202.1
Trade and Other Payables	549.4	622.7	1,545.1	3,037.6
Short Term Borrowings	-	-	86.7	71.9
Total Liabilities	613.0	637.0	1,636.8	3,132.6
Paid up Capital	305.0	576.0	576.0	576.0
Retained Earnings	49.0	86.7	199.0	400.5
Total Equity (Exc. Revaluation Gain)	365.1	673.8	814.4	1,016.7
INCOME STATEMENT				
Brokerage revenue	226.3	144.8	297.9	587.6
Other income	55.3	87.4	177.6	295.8
Recurring Revenues	281.7	232.3	475.6	883.4
Administrative Expenses	225.8	228.6	331.3	506.3
Finance Cost	8.9	11.5	8.0	5.3
Profit Before Tax	30.4	(11.6)	135.6	386.7
Profit After Tax	15.9	(12.5)	104.1	253.0
RATIO ANALYSIS				
Liquid Assets to Total Liabilities (%)	120.0%	123.8%	102.6%	115.1%
Liquid Assets to Total Assets (%)	75.3%	56.7%	67.0%	85.8%
Current Ratio (x)	1.57	1.82	1.38	1.30
Leverage (x)	1.68	0.95	2.01	3.08
Gearing (x)	0.15	-	0.11	0.07
Efficiency (%)	80.2%	98.4%	69.7%	57.3%
ROAA (%)	1.4%	-1%	5.3%	7.5%
ROAE (%)	4.2%	-2%	14.0%	27.6%

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 & CY24 numbers are from Jan'24 to Dec'24

REGULATORY DISCLOSURES				Appendix II	
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				
	10/Apr/2025	A	A2	Stable	Reaffirmed
	29/Jan/2024	A	A2	Stable	Upgraded
	26/Oct/2022	A-	A2	RW - Developing	Maintained
	24/Jan/2021	A-	A2	RW - Developing	Maintained
	25/May/2021	A-	A2	Stable	Reaffirmed
	22/April/2020	A-	A2	Stable	Maintained
	1/April/2019	A-	A2	Negative	Maintained
1/Nov/2017	A-	A2	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.				
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Due Diligence Meeting Conducted	Name		Designation		Date
	Mr. Zahid Ali Khan		CFO & Company Secretary		February 25, 2025
	Mr. Owais Ahmad		Manager Finance & Accounts		