

## BROKER MANAGEMENT RATING REPORT

### Foundation Securities (Private) Limited

**REPORT DATE:**

May 20, 2020

**RATING ANALYSTS:**

Muhammad Tabish

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**APPLICABLE**

**METHDOLOGY:**

Broker Management Ratings 2017:

<http://vis.com.pk/docs/BMR2017>

[01.pdf](#)

Rating Category	Latest Rating
<b>Broker Management Rating</b>	<b>BMR2</b>
<b>Rating Rationale</b>	The rating signifies strong risk management; sound internal and external control framework, client relationship and HR & IT infrastructure with adequate financial management and regulatory compliance levels.
<b>Rating Date</b>	20 May, 2020

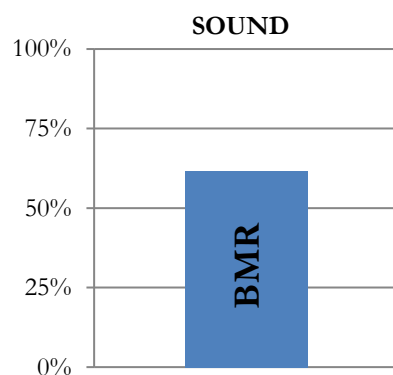
### COMPANY INFORMATION

<b>Incorporated in 2005</b>	<b>External auditors:</b> Grant Thornton Anjum Rahman
<b>Private Limited Company</b>	<b>Chairman of the Board:</b> Brig. Sabir Ali (Retd)
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Syed Ahmad Abbas Zaidi
<i>Fauji Foundation Pakistan ~ 95.7%</i>	

### Corporate Profile

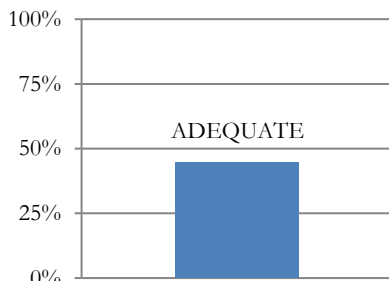
Incorporated in 2005, Foundation Securities Private Limited (FSL) is a subsidiary of Fauji Foundation Pakistan. The group has strategic investments in various sectors including fertilizer, power, cement, infrastructure, banking, financial services, consumer goods, oil & gas and others. FSL is primarily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

The company holds a Trading Right Entitlement (TRE) certificate issued by the Pakistan Stock Exchange Limited (PSX). External auditors are on the approved list of auditors in category 'A', published by the State Bank of Pakistan (SBP).



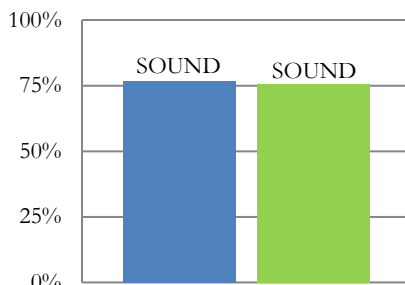
**Rating Factors Scores**

**Regulatory Requirements & Supervision**



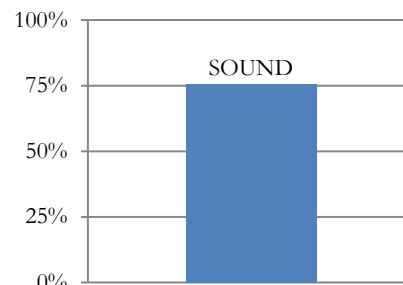
- Room for improvement exists in terms of board size and independent directors.
- Although board committees are in place, duplication of members defeats the purpose of formation.
- Improvement in net capital balance has been noted.

**Internal & External Control Framework**



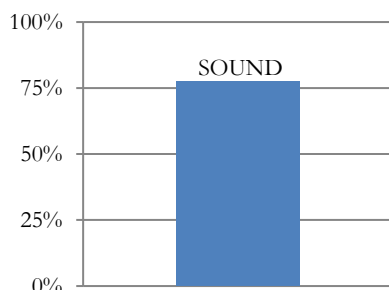
- Internal control framework is considered sound, however; the policies may be more comprehensive for clarity and control purposes.
- Inclusion of Directors’ Report, CEO statement and Statement of Compliance with Code of Corporate Governance in annual accounts would enhance public disclosures.

**Client Relationship & Fairplay**



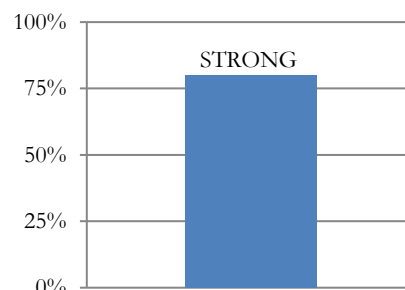
- Uploading market and equity research reports on the website would enhance client service.
- Adding a separate complaint header on website’s homepage along with sms text complaint service would add to the customer grievances process.

**HR & Infrastructure**



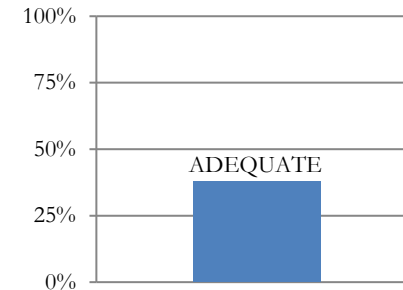
- Senior management team has remained stable during the period under review.
- IT infrastructure and related policies are sound; however the same may be reviewed more frequently.
- Business continuity planning maybe also enhanced by increasing frequency of disaster recovery exercises.

**Compliance & Risk Management**



- Internal audit has been segregated and outsourced while internal function in now focused on compliance and risk management.
- Given limited proprietary investments, exposure to market risk is considered on lower side.

**Financial Management**



- The company has posted nominal profit in HFY20 after two consecutive years of negative bottom-line. FSL’s market share remained close to ~7% in FY19.
- Cognizant of the sizable reliance on equity brokerage operations, diversification in revenue streams has been on management’s agenda. However progress in this regard has been slow.
- Rating assessment of FSL takes into account an element of sponsor support.

**MANAGEMENT QUALITY SCALE & DEFINITIONS**

**Appendix I**

**VIS** Credit Rating Company Limited

**RATING SCALE & DEFINITIONS: BROKER MANAGEMENT RATING**

**BMR1A**

Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.

**BMR3++, BMR3+, BMR3**

Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.

**BMR1++, BMR1+, BMR1**

Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.

**BMR4++, BMR4+, BMR4**

Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.

**BMR2++, BMR2+, BMR2**

Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.

**BMR5**

Weak regulatory compliance and business practices

**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](http://www.vis.com.pk/images/criteria_outlook.pdf)

<b>REGULATORY DISCLOSURES</b>		<b>Appendix II</b>		
<b>Name of Rated Entity</b>	Foundation Securities (Private) Limited			
<b>Sector</b>	Brokerage			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Broker Management Rating (BMR)			
<b>Rating History</b>	<b>Rating Date</b>	<b>Rating</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: BMR</u></b>			
	20/05/2020	BMR2	Stable	Reaffirmed
	10/07/2019	BMR2	Stable	Reaffirmed
	28/05/2018	BMR2	Stable	Initial
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	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.			
<b>Probability of Default</b>	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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