

BROKER MANAGEMENT RATING REPORT

Foundation Securities (Private) Limited

REPORT DATE:

July 07, 2022

RATING ANALYSTS:

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Rating Category	Latest Rating
Broker Management Rating	BMR2
Rating Rationale	The rating signifies strong compliance & risk management as well as external control framework. Regulatory framework, internal controls, client relationship and HR & IT infrastructure are sound with adequate financial management and supervisory levels.
Rating Outlook	Rating Watch-Developing
Rating Date	July 7th, 2022

APPLICABLE METHDOLOGY:

Broker Management Ratings 2020: [https:// docs.vis.com.pk/ docs/ BMR202007.pdf](https://docs.vis.com.pk/docs/BMR202007.pdf)

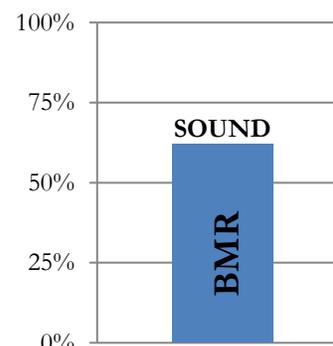
COMPANY INFORMATION

Incorporated in 2005	External auditors: Grant Thornton Anjum Rahman
Private limited Company	Chairman of the Board: Brig. Amir Hussain Mirza (Rtd)
Key Shareholders (with stake 5% or more): <i>Fauji Foundation Pakistan ~ 100%</i>	Chief Executive Officer: Syed Ahmad Abbas Zaidi

Corporate Profile

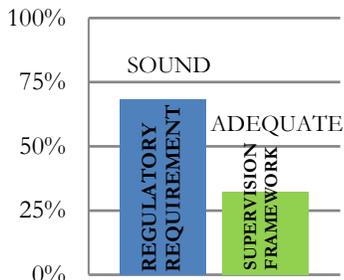
Incorporated in 2005, Foundation Securities Private Limited (FSL) is a subsidiary of Fauji Foundation Pakistan. The group has strategic investments in various sectors including fertilizer, power, cement, infrastructure, banking, financial services, consumer goods, oil & gas and others. FSL is primarily 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. 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 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).



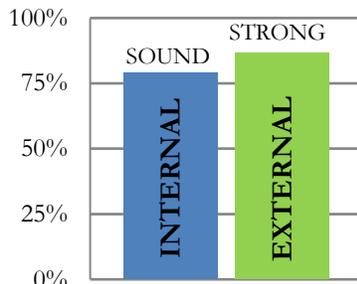
Rating Factors Scores

Regulatory and Supervision Framework



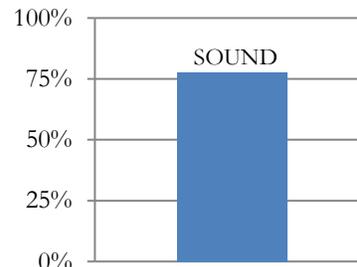
- Board of Directors consists of three members. Increasing board size with independent representation may enhance supervisory framework.
- This may also improve the composition of board level committees for effective supervision. Addition of certified members may be considered.

Internal & External Control Framework



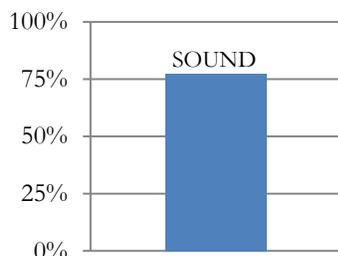
- External control framework is strong; enhanced disclosure in the audited accounts has been noted.
- Appropriate internal control policies are in place. The Company has updated and enhanced the scope of Employee Trading Policy (ETP)

Client Relationship & Fair-play



- Overall, client relationship and fair-play remains sound with provision of all client facilitation tools for enhanced client experience.

HR & Infrastructure



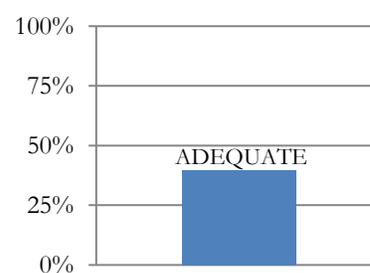
- Fully integrated ERP platform is functional.
- Sound contingency measures are in place; increasing the frequency of disaster recovery exercises may be considered.

Compliance And Risk Management



- Compliance and risk management function is considered strong.
- Outsourcing of internal audit is viewed positively for greater transparency purposes.
- Streamlining of credit limit thresholds for retail customers may further enhance risk management framework.

Financial Management



- Profitability in FY21 remained strong supported by higher brokerage income, however, the same has been impacted in 1HFY22 due to subdued market activity.
- Efficiency ratio has remained on the higher side. Going forward, effective cost control will remain important for maintaining profitability levels.
- Market risk exposure remains limited.
- Liquidity profile remains adequate, with liquid assets providing 1.11x coverage to total liabilities at the end of 1HFY22 (FY21: 1.15x, FY20: 0.8x)
- Capitalization indicators remain under pressure with gearing at 0.95x end-HFY22 (FY21: 0.12x, FY20: 0.17x) which was subsequently rationalized. Leverage levels also depict an increase end-HFY22. On account of dividend payouts, equity base growth has remained restricted and stood at Rs 369m at end Dec 2021.

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

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	Foundation Securities (Private) Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Management Rating (BMR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	RATING TYPE: BMR			
	07/07/2022	BMR2	Rating Watch-Developing	Maintained
	15/06/2021	BMR2	Stable	Reaffirmed
	20/05/2020	BMR2	Stable	Reaffirmed
	10/07/2019	BMR2	Stable	Reaffirmed
	28/05/2018	BMR2	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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