

BROKER FIDUCIARY RATING REPORT

Foundation Securities (Private) Limited

REPORT DATE:

22 February, 2022

RATING ANALYSTS:

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RATING DETAILS

Broker Fiduciary Rating

BFR3+

Good Fiduciary Standards

Rating Rationale

The rating signifies strong management and client services as well as internal controls and regulatory compliance. Ownership and governance, and business and financial stability is adequate.

Rating Date

22 February, 2022

COMPANY INFORMATION

Incorporated in 2005

External auditors: Grant Thornton Anjum Rahman

Private Limited Company

Chief Executive Officer: Syed Ahmad Abbas Zaidi

Key Shareholders (with stake 5% or more):

Chairman of the Board: Brig. Aamir Hussain Mirza (Retd)

Fanji Foundation Pakistan ~ 100.0%

APPLICABLE METHODOLOGY

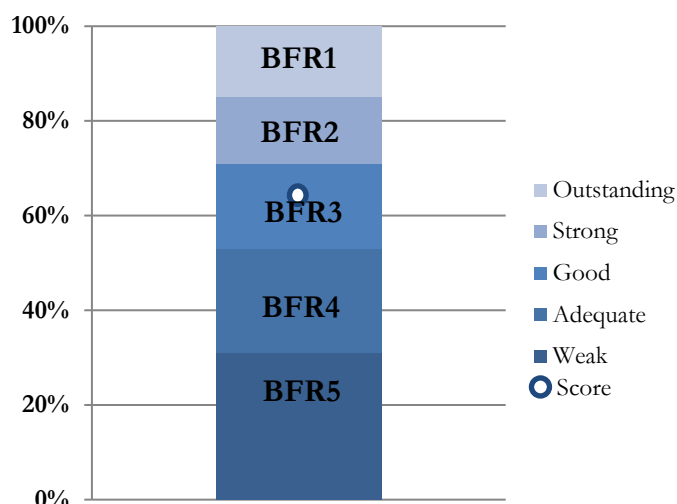
Applicable Rating Criteria: Broker Fiduciary Ratings 2021

<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

Foundation Securities (Private) Limited

CORPORATE PROFILE OVERALL GRADING

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 focuses 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), holding a Trading & Self- Clearing license. External auditors are Grant Thornton Anjum Rahman Chartered Accountants. External auditors are on the approved list of auditors in category ‘A’, published by the State Bank of Pakistan (SBP).

Business and Financial Sustainability Indicators

	FY21	FY20	FY19
Size of Net Worth (Rs. In Millions)	397	259	222
Gearing x (Total interest bearing debt/ Total equity)	0.12x	0.17x	0.70x
Leverage x (Total liabilities/ Total equity)	2.44x	3.52x	2.49x
Liquid Assets/ Total Liabilities (x)	1.15x	0.80x	0.87x
Short term Investments/ Total Equity (%)	8%	16%	0%
Net Capital Balance (Rs. In Millions)	278	142	55

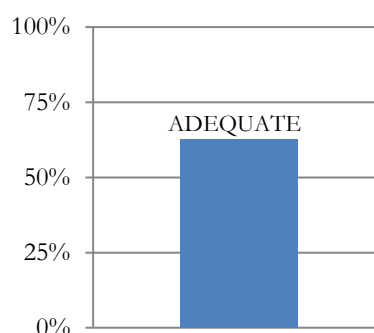
Foundation Securities (Private) Limited

Rating Indicators

Ownership & Governance

- The rating incorporates strong ownership and governance framework as well as strength of the sponsor, Fauji Foundation.
- Board of directors consists of 3 members, who represent 3 board level committees. Increasing the number of Board members may avoid repetition of members in board committees
- Governance structure may be enhanced by addition of independent and certified directors on the board.

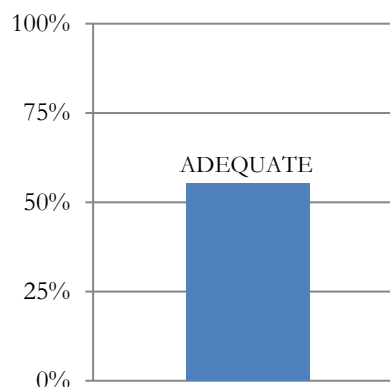
Ownership & Governance



Business & Financial Sustainability

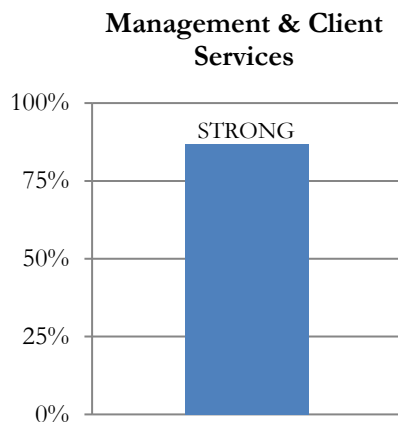
- Operating revenues are mainly concentrated in brokerage income, which in line with industry trends recorded significant increase in FY21 driving overall profitability.
- Higher operating revenues coupled with contained costs led to improvement in cost to income ratio.
- Liquidity profile of the Company is adequate. Liquid assets consist of cash and bank balances, which along with short term investments cover more than 100% of total liabilities.
- Low debt, combined with an improved equity base has kept the gearing ratio at a comfortable level (FY21: 0.12x, FY20: 0.17x) Leverage however, is considered high, primarily due to high trade credit.
- Going forward, increasing market share and diversifying income streams will be considered important.

Business & Financial Sustainability



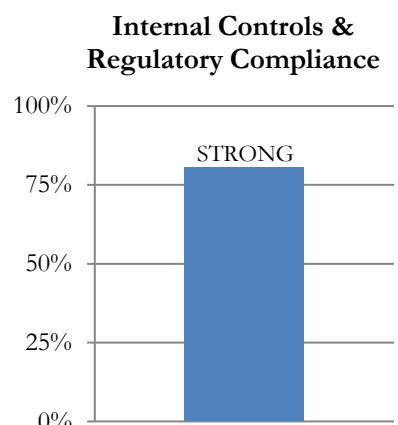
Management & Client Services

- Client services and customer facilitation tools are well established. A client centric approach focuses on enhancing customer experience and strengthening client relationship.
- Availability of mobile and web-based trading services as well as online customer reports puts FSL in line with industry standards.
- Higher visibility at online platforms like website and social media through advertisements as well as availability of market research and equity reports may be considered.
- Segregation of compliance and risk management functions is noted.
- Geographical diversification into multiple cities is noted.



Internal Controls & Regulatory Compliance

- Internal controls and regulatory compliance is strong, with appropriate policies and procedures to prevent conflict of interest and preserve confidentiality of sensitive information.
- Market risk is minimal, as the company does not maintain an active proprietary book.
- Appropriate contingency plans and procedures are in place. Further improvement may be brought by increasing frequency of disaster recovery exercises.
- Some observations with respect to KYC procedures were made by CDC, most of which have been rectified. Further development in the same will be considered important.
- A fully integrated ERP platform is present, which supports the internal control framework.



Broker Fiduciary Rating Explained

In Securities Broker Fiduciary Rating (SBF), the strength of fiduciary role of the securities brokers is captured through the relative financial strength of the securities broker firm and its sponsors along with depth of internal control and governance framework, which are key rating ingredients. Responsiveness of the risk and internal control structure, quality of HR and soundness of the business infrastructure determine the strength of management and level of service quality of a stock broker. VIS Credit Rating Co. Ltd. (VIS) has developed a rating system that evaluates brokerage firms on the basis of such practices and the systems instituted to safeguard investor interests are at the forefront.

FIDUCIARY RATING SCALE & DEFINITIONS

Appendix I

RATING SCALE & DEFINITIONS: SECURITIES BROKER FIDUCIARY RATING

BFR1

Outstanding fiduciary standards

BFR4++, BFR4+, BFR4

Adequate fiduciary standards

BFR2++, BFR2+, BFR2

Strong fiduciary standards

BFR5++, BFR5+, BFR5

Weak fiduciary standards

BFR3++, BFR3+, BFR3

Good fiduciary standards

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

Foundation Securities (Private) Limited

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	Foundation Securities (Private) Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Fiduciary Rating (BFR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	RATING TYPE: BFR			
	22/02/2022	BFR3+	Rating Watch - Developing	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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