

BROKER FIDUCIARY RATING REPORT

Foundation Securities (Private) Limited

REPORT DATE:

September 13, 2023

RATING ANALYSTS:

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RATING DETAILS

Broker Fiduciary Rating	BFR3++ <i>Good Fiduciary Standards</i>
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	September 13, 2023

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: Mr. Aziz Ikram
<i>Askari Bank Limited ~ 51.0 %</i>	
<i>Fauji Foundation Pakistan ~ 49.0%</i>	

APPLICABLE METHODOLOGY

Applicable Rating Criteria: Broker Fiduciary Ratings 2021

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

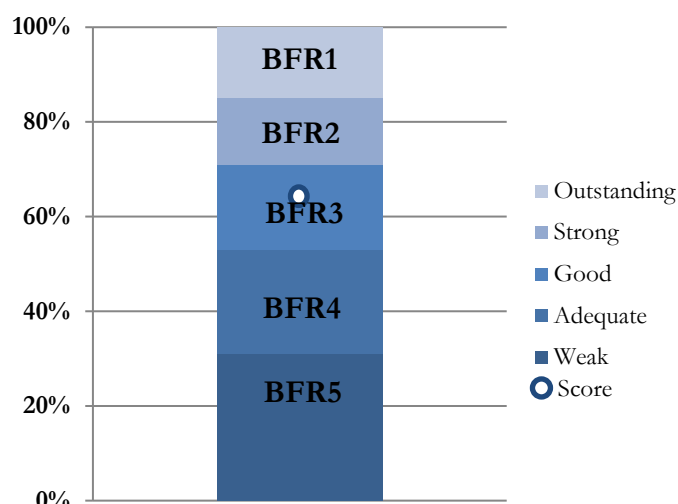
APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

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

Foundation Securities (Private) Limited
CORPORATE PROFILE

Incorporated in 2005, Foundation Securities Private Limited (FSL) is a subsidiary of Askari Bank Limited. Fauji Foundation, also a co-sponsor of the company, 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 branches in Pakistan Stock Exchange Karachi, Lahore, Islamabad and Rawalpindi.

OVERALL GRADING


The company holds a Trading Right Entitlement (TRE) certificate issued by the Pakistan Stock Exchange Limited (PSX), holding a Trading & Self- Clearing license and license of Pakistan Commodity Exchange (PMEX). 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

	FY23	FY22	FY21
Size of Net Worth (Rs. In Millions)	754	365	397
Gearing x (Total interest bearing debt/ Total equity)	0.00x	0.15x	0.12x
Leverage x (Total liabilities/ Total equity)	0.84x	1.68x	2.44x
Liquid Assets/ Total Liabilities (x)	1.28x	1.23x	1.16x
Short term Investments/ Total Equity (%)	1%	4%	7%

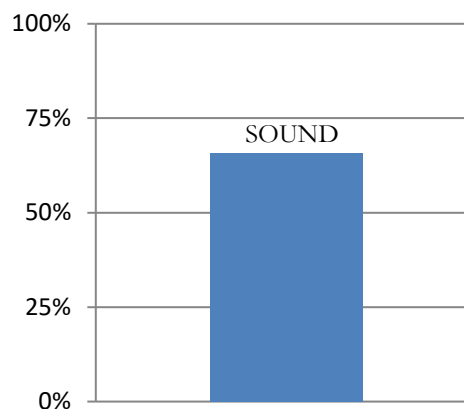
Foundation Securities (Private) Limited

Rating Indicators

Ownership & Governance

- Company derives strength from its strong sponsor, with Askari Bank Limited being the major shareholder following the merger with Askari Securities and Fauji Foundation as another shareholder.
- At present, the Company’s board consists of three members, representing two board committees. Inclusion of certified members in the board may improve overall governance framework of the Company.
- Consequently, the same may pave the way for the expansion of board committees.

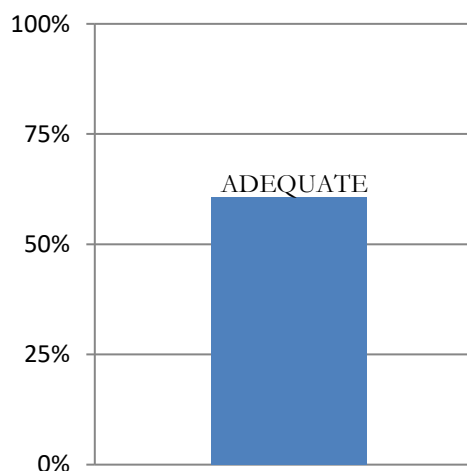
Ownership & Governance



Business & Financial Sustainability

- During the year, the Company’s operating profile witnessed a descent on account of subdued market activity leading to decline in brokerage revenues.
- The Company’s cost-to-income ratio has also worsened. Recurring expenses in relation to recurring revenues reached 99% during FY23 (FY22: 80%, FY21: 57.95%).
- Market risk of the Company is considered minimal given low proprietary book maintained by the Company.
- Liquidity profile of the Company is considered good given liquid assets providing 1.3x times coverage to total liabilities at end-FY23 (FY22 1.2x, FY21 1.1x).
- The Company has a sound gearing indicator while leverage witnessed decline on timeline basis. Leverage indicator was observed to be at 0.80x at end-FY23 (FY22 1.7x, FY21 2.4x). Following a merger with Askari Securities, the equity of the Company has surged to Rs.754m at Jun’23 (Jun’22: Rs.365m).
- Overall, FSL’s business & financial sustainability profile is adequate, therefore diversification in revenue streams, improvement in liquidity, efficiency and capitalization indicators will be considered important.

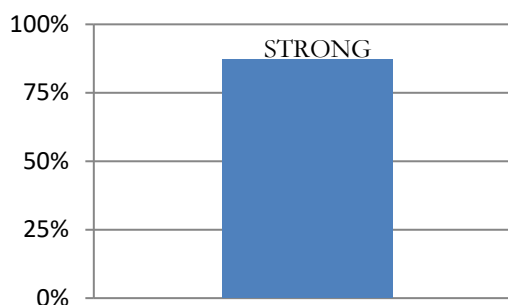
Business & Financial Sustainability



Management & Client Services

- Overall management and client services continue to remain strong. Client services and customer facilitation tools are well established with availability of mobile and web based trading.
- To improve visibility on digital platforms, such as the company website and social media, FSL may consider utilizing advertisements and offering market research and equity reports.

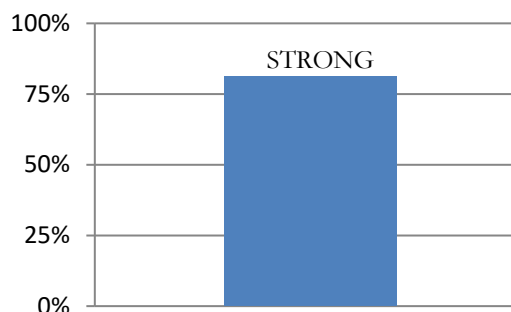
Management & Client Services



Internal Controls & Regulatory Compliance

- Internal control and regulatory compliance framework continues to remain strong.
- Appropriate contingency plans and measures to ensure client confidentiality are well in place. Further improvement may be brought by increasing frequency of disaster recovery exercises.

Internal Controls & Regulatory Compliance



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.

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			
	09/13/2023	BFR3++	Stable	Upgrade
	02/22/2022	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	N/A			
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