

BROKER FIDUCIARY RATING REPORT

Foundation Securities (Private) Limited

REPORT DATE:

October 17, 2024

RATING ANALYSTS:

Shaheryar Khan Mangan

shaheryar@vis.com.pk

Zainab Imran

zainab.imran@vis.com.pk

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

October 17, 2024

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

Askari Bank Limited ~ 51.0 %

Fanji Foundation Pakistan ~ 49.0%

APPLICABLE METHODOLOGY

Applicable Rating Criteria: Broker Fiduciary Ratings

<https://docs.vis.com.pk/Methodologies%202024/Broker-Fiduciary-Rating.pdf>

VIS Issue/Issuer Rating Scale:

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

Foundation Securities (Private) Limited

CORPORATE PROFILE	OVERALL GRADING
<p>Incorporated in 2005, Foundation Securities Private Limited (FSL) is a subsidiary of Askari Bank Limited. Fauji Foundation, 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 its head office based in Karachi along with branches in Pakistan Stock Exchange Karachi, Lahore, Islamabad and Rawalpindi.</p>	<p>The chart displays a 100% scale on the y-axis. The bar is divided into five segments: BFR1 (Outstanding, lightest blue), BFR2 (Strong, medium-light blue), BFR3 (Good, medium blue), BFR4 (Adequate, medium-dark blue), and BFR5 (Weak, darkest blue). A score marker, represented by a circle with a dot, is positioned at approximately 70% on the y-axis, within the BFR3 segment.</p>

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). During the year 2024, the Company changed its accounting period to January–December to align with its holding company's fiscal year.

Business and Financial Sustainability Indicators				
	6MCFY24*	6MFY24	FY23	FY22
Size of Net Worth (Rs. In Millions)	818	786	673	365
Gearing x (Total interest-bearing debt/ Total equity)	-	0.11x	-	0.15x
Leverage x (Total liabilities/ Total equity)	2.00x	2.08x	0.95	1.68x
Liquid Assets/ Total Liabilities (x)	1.08x	1.04x	1.28	1.23x
Short term Investments/ Total Equity (%)	2.24%	1.74%	1.49%	3.78%

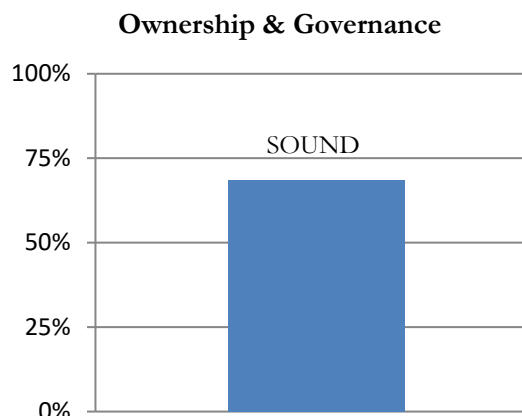
**Unaudited Accounts (Jan-Jun), the Company has changed its reporting year to Jan-Dec*

Foundation Securities (Private) Limited

Rating Indicators

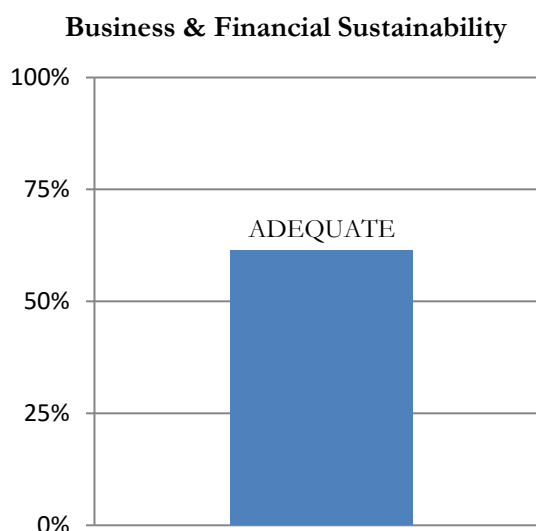
Ownership & Governance

- The Company draws strength from the robust profile of the sponsors, with majority shareholding vested with Askari Bank Limited and Fauji Foundation.
- The Board of directors is comprised of five members, including CEO. However, there is no independent representation on the board.
- The Company has two board committees namely audit and HR, represented by only two members.
- Inclusion of independent and certified directors along with the expansion of board committees may enhance the governance framework of the Company.



Business & Financial Sustainability

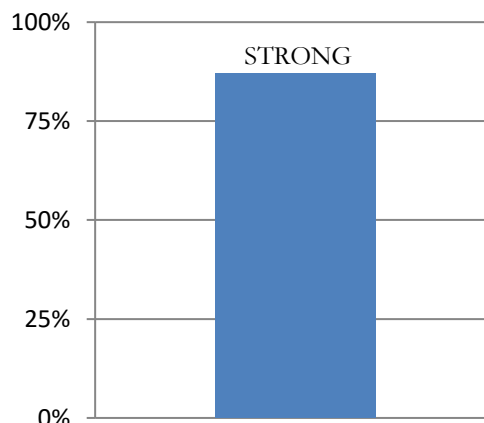
- Following a negative bottom line in FY23, the Company's profitability levels have recouped, driven by increased brokerage revenue supported by favorable market dynamics, with brokerage revenue serving as the primary contributor to the Company's revenue mix.
- Operational efficiency of the Company has weakened and remains on the higher side.
- Market risk of the Company is considered minimal, given a small proprietary book maintained by the Company.
- Liquidity profile of the Company is considered adequate, with liquid assets providing a coverage of 1.08x against its total liabilities as at June'24 (Jun'23: 1.28x, Jun'22: 1.23x).
- The Company has no debt on its books. Leverage indicator remains elevated, mainly due to high level of trade creditors which account for ~ 91% of total liabilities on average. Equity base of the Company, excluding revaluation surplus, increased to Rs. 817m as at Jun'24 (Jun'23: 673.8m, Jun'22: Rs.364.7m).
- Going forward, diversification in revenue streams, together with improvement in liquidity, efficiency and leverage indicator will be important for rating.



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 customers.
- Investor grievance procedures may be strengthened for further ease in registering and tracking customer complaints.
- FSL may also consider utilizing advertisements and undertakings to further enhance visibility on digital platforms.
- Contingency measures of the Company are well in place, with offsite backups under their control as well as outsourced to a third-party warehouse.

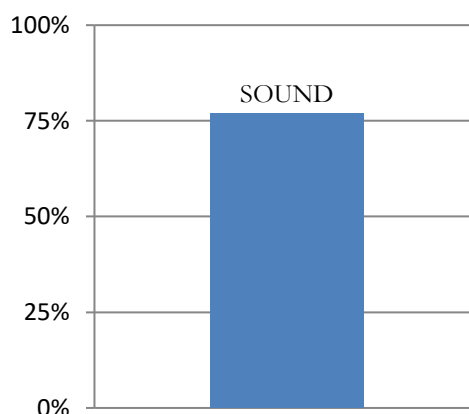
Management & Client Services



Internal Controls & Regulatory Compliance

- Internal control and regulatory compliance framework is considered sound. Enhancing the scope of conflict-of-interest policy may enhance the internal control framework of the Company.
- Increasing the frequency of reviews of the order recording system may improve the Company's internal control framework.
- Increasing the proportion of IDS clients may improve the credit risk profile of the Company.

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 I		
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			
	10/17/2024	BFR3++	Stable	Reaffirmed
	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			
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2024 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.			