

BROKER FIDUCIARY RATING REPORT

FDM Capital Securities (Private) Limited

REPORT DATE:

5 August, 2021

RATING ANALYSTS:

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RATING DETAILS

Broker Fiduciary Rating	BFR3 <i>Good Fiduciary Standards</i>
Rating Rationale	The rating signifies adequate governance, financial structure, client services and sound internal controls.
Rating Date	5 August, 2021

COMPANY INFORMATION

Incorporated in 2001	External auditors: M/s Rahman Sarfaraz Rahim Iqbal Rafiq – Chartered Accountants
Private Limited Company	Chairman/ CEO: Mr. Muhammad Farooq
Key Shareholders (with stake 5% or more):	
<i>Mr. Muhammad Farooq 93.5%~</i>	
<i>Mr. Muhammad Munir 6.5%~</i>	

APPLICABLE METHODOLOGY

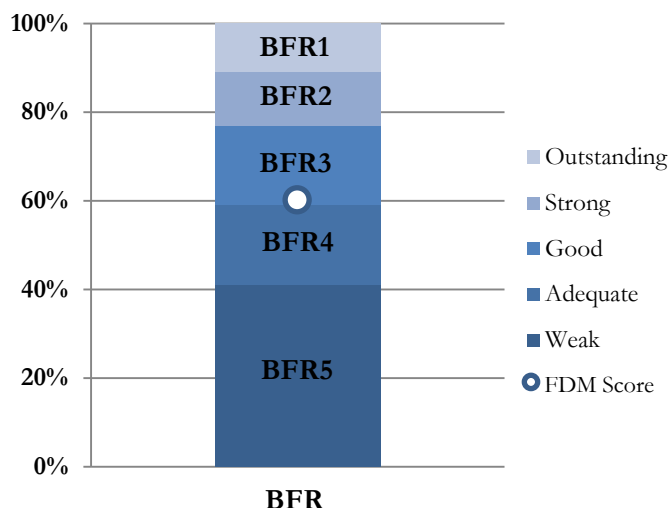
Applicable Rating Criteria: Broker Fiduciary Ratings 2021

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/BrokerFiduciary012021.pdf>

FDM Capital Securities (Private) Limited

CORPORATE PROFILE OVERALL GRADING

Incorporated in July 2001, FDM Capital Securities (Private) Limited (FDMCSL) is a private limited company principally engaged in brokerage of shares in ready and future market to local retail clients. Major shareholding of the company is vested with Mr. Muhammad Farooq, who serves as the Chief Executive Officer of the company. FDMCSL provides trading services to its customers through its registered office in Karachi.



FDMCSPL holds Trading Rights Entitlement Certificate (TREC) for Trading & Clearing Services granted by Pakistan Stock Exchange Limited (PSX). The company has also acquired a membership of the Pakistan Mercantile Exchange Limited & Commodities Exchange (PMEX.) External auditors of the company are M/s Rahman Sarfaraz Rahim Iqbal Rafiq – Chartered Accountants. External auditors belong to category ‘A’ on the approved list of auditors published by the State Bank of Pakistan (SBP).

Business and Financial Sustainability Indicators

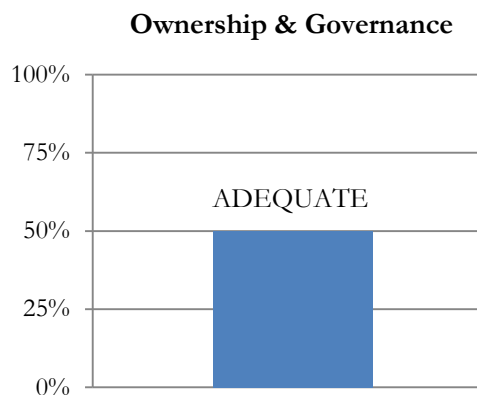
	FY20	FY19	Latest two year average
Size of Net Worth (Rs. In Millions)	174	155	165
Gearing x (total interest bearing debt/ total equity)	0.0x	0.0x	0.0x
Leverage x (total liabilities/ total equity)	0.63x	0.40x	0.51x
Liquid Assets/ Total Liabilities (x)	2.1x	2.7x	2.4x
Short term Investments/ Total Equity (%)	67%	67%	67%
Market Share (%)	5%	5%	5%
Efficiency (%)	77%	120%	98%

FDM Capital Securities (Private) Limited

Rating Indicators

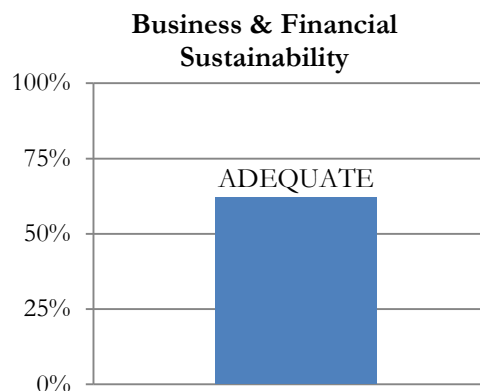
Ownership & Governance

- Presently, company’s board comprises of two directors with no independent representation which limits the formation of independently represented board committees. Governance framework may be strengthened by increasing the board size.
- Transparency may be enhanced by increasing the scope of disclosure level through including director’s report, CEO’s statement and Statement of Compliance with Code in the company’s annual accounts.



Business & Financial Sustainability

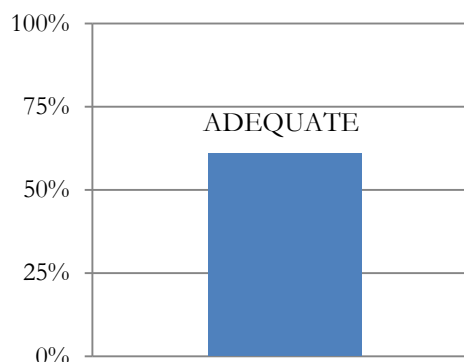
- During FY20, the company’s profitability profile witnessed improvement on account of increase in brokerage income and unrealized gains on re-measurements of investments. Profitability further improved by a twofold during HFY21, the company posted a PAT of Rs. 39.7m (FY20: Rs. 19.2m)
- Quantum of short term investments in relation to equity remained minimal depicting low market risk during FY20.
- Consistent increase in recurring income led to an improvement in the efficiency levels on a timeline basis. During FY20, efficiency ratio was reported to be 77% (FY19: 120%) which further improved to 43% during HFY21.
- Gearing indicator remained nil while leverage deteriorated to 0.94x during HFY21 (FY20: 0.63x FY19: 0.4.) The increase in leverage is attributable to increase in payables to creditors.
- Overall financial management of the company remains adequate; however, dependence on brokerage segment is considered a rating constraint. Diversification in revenue streams may bode well for strengthening the business profile of the company.



Management & Client Services

- At present, accounting and trading platforms are integrated while client servicing and operations platforms are functioning on standalone basis. In order to enhance the functionality of the same, all platforms may be fully integrated.
- Customer grievance procedures may be improved by availability of sending and tracking complaints through sms service.
- Period reporting to customers is done on daily basis, client experience may be further enhanced through presence of market research reports and commission rates on the website.

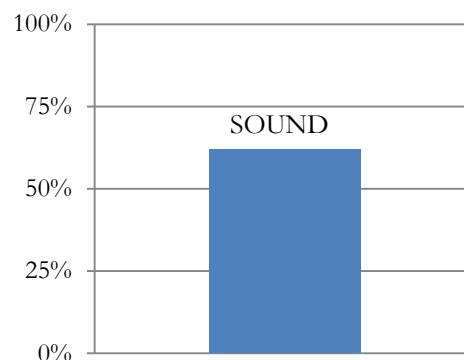
Management & Client Services



Internal Controls & Regulatory Compliance

- Internal control framework is considered sound. Scope of policies and manuals is defined.
- Measures to ensure client’s data confidentiality are in place.
- During FY20, the company was charged with a penalty for non-compliances regarding AML related matters. As a corrective measure, the company is formulating a trade review policy for monitoring suspicious trades.

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.

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

FDM Capital Securities (Private) Limited

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	FDM Capital 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			
	5/8/2021	BFR3	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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