

BROKER MANAGEMENT RATING REPORT

FDM Capital Securities (Private) Limited

REPORT DATE:

29 November, 2021

RATING ANALYSTS:

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APPLICABLE

METHODOLOGY:

Broker Management Ratings 2020:

<https://docs.vis.com.pk/docs/BMR202007.pdf>

Rating Category	Latest Rating
Broker Management Rating	BMR3++
Rating Rationale	The rating signifies sound external control, whereas client relationship, compliance and risk management, regulatory requirements, internal controls, financial management, and HR and infrastructure are considered adequate.
Rating Date	29 November, 2021

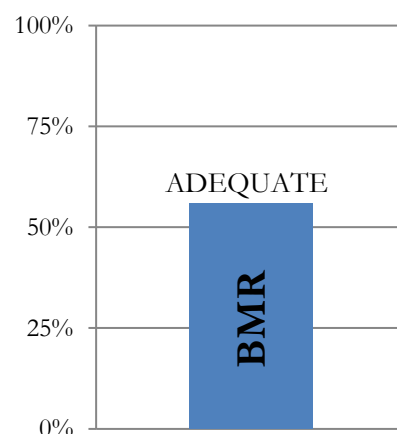
COMPANY INFORMATION

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

Corporate Profile

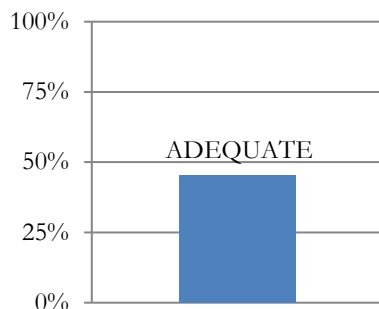
FDM Capital Securities (Pvt.) Limited (FDMCSPL), incorporated in July 2001, is a private limited company, and is principally engaged in brokerage of shares in ready and future market to local retail clients. Major shareholding of the company is vested with Mr. Muhammad Farooq, who serves as the Chief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

FDMCSPL is a private limited company holding Trading Rights Entitlement Certificate (TREC) granted by Pakistan Stock Exchange Limited (PSX), and is registered with SECP to provide Trading & Self-Clearing Services. 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).



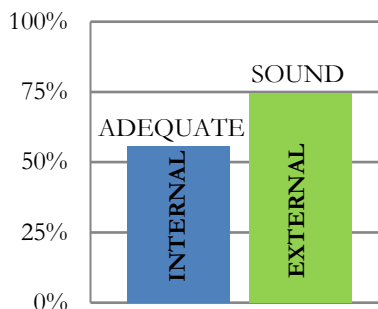
Rating Factors Scores

Regulatory Requirements & Supervision



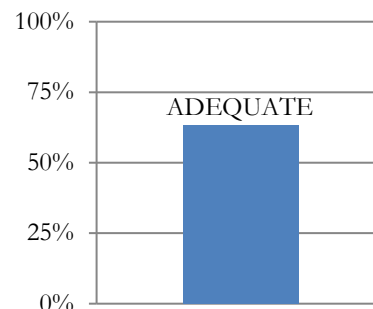
- Board of directors consists of only two members. In line with best practices, increasing the size of the board with independent and certified member representation may contribute towards enhancing governance framework.
- This will also assist in formation of independently represented Board committees, formation of other committees at the Board level including Risk Management may be considered.
- Acquiring additional licenses may support revenue growth in future.

Internal & External Control Framework



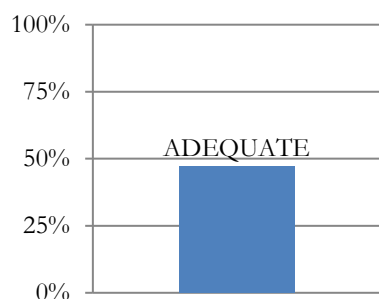
- Having a separate and well-defined conflict of interest policy may be considered.
- Increasing the scope of Employee Trading Policy (ETP) to include trading windows and blackout periods may enhance control framework.
- External control framework may be further strengthened by including director's report, Statement of Compliance, and CEO's statement in financial statements.

Client Relationship & Fairplay



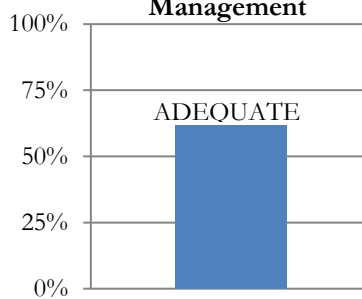
- Client experience may be improved by increasing online visibility through ads, research reports and commission rates
- SMS-based trade execution and complaint systems have been introduced. Commission structure may be realigned to reflect uniformity across same client category.
- Geographical diversification into other cities may provide future growth opportunities.

HR & Infrastructure



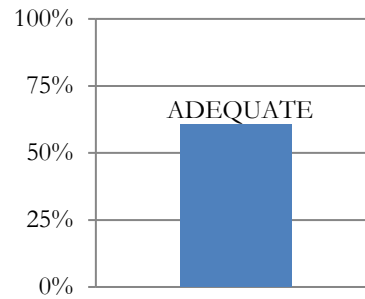
- Establishing a fully integrated ERP platform may align the company with best practices.
- Developing a separate, well-defined IT policy may be considered.
- Contingency measures are in place. Improvement may be brought by establishing offsite data warehouses under control of third party.
- Increasing disaster recovery exercises to more than once a year may further strengthen the business continuity framework.

Compliance & Risk Management



- Segregating risk management and compliance functions may strengthen compliance and risk management framework.
- Enhancing the scope of credit policy may be considered.
- Implementation of corrective measures with respect to non-compliances relating AML matters will be important.

Financial Management



- In line with market trend, increased trading activity resulted in higher brokerage revenue, which combined with one-off gains on revaluation of investments, significantly increased profits in FY21 to Rs. 121m (FY20: Rs. 19m).
- Higher revenues and contained costs has also led to improvement in efficiency ratio.
- Liquidity profile of the company is considered strong, with liquid assets covering 201% of total liabilities.
- Gearing and leverage ratios are low and manageable, while the equity base has also increased considerably during FY21.
- Augmenting the revenue base together with keeping cost to income ratio and gearing levels low will be important going forward. Overall, financial management is considered adequate

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	FDM Capital Securities (Pvt.) Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Management Rating (BMR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	<u>RATING TYPE: BMR</u>			
	29/ 11/ 2021	BMR3++	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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