

BROKER MANAGEMENT RATING REPORT

FDM Capital Securities (Private) Limited

REPORT DATE:

03 January, 2023

RATING ANALYSTS:

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APPLICABLE

METHODOLOGY:

Broker Management Ratings 2020:

<https://docs.vis.com.pk/docs/BMR2020>

[07.pdf](#)

Rating Category	Latest Rating
Broker Management Rating	BMR3++
Rating Rationale	The rating signifies sound external control, client relationship, and compliance and risk management. Regulatory requirements, internal controls, financial management, HR and infrastructure are considered adequate.
Rating Date	03 January, 2023

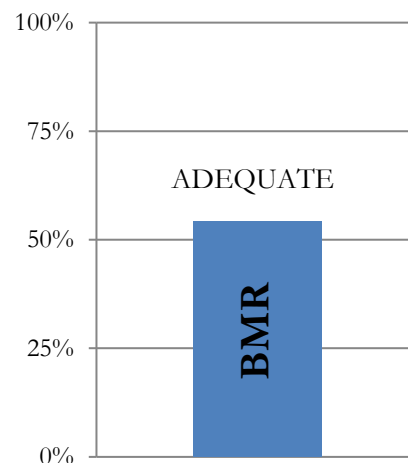
COMPANY INFORMATION

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 ~ 93.52%</i>	
<i>Mr. Muhammad Munir ~ 6.48%</i>	

Corporate Profile

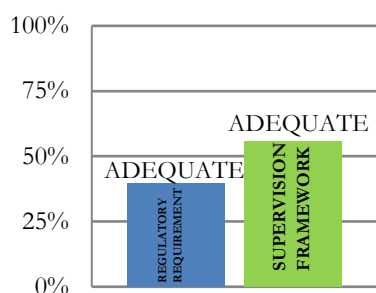
FDM Capital Securities (Pvt.) Limited (FDMCSL), incorporated in July 2001, is a private limited company, and is principally engaged in brokerage of shares in ready and future market to local retail clients. Major shareholding of the company is vested with Mr. Muhammad Farooq, who serves as the Chief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

FDMCSL 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).



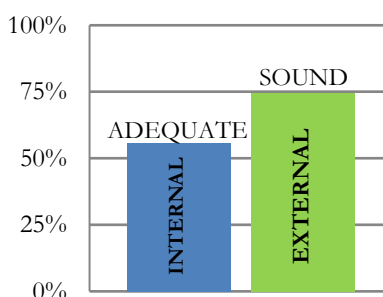
Rating Factors Scores

Regulatory Requirement & Supervision Framework



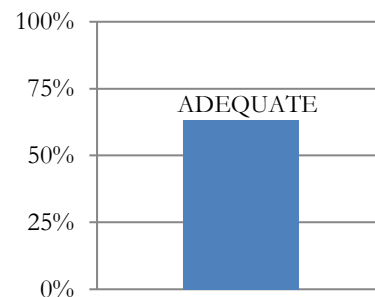
- Board of directors consists of two members. Increasing the size of the board with independent directors may assist in formation of independently represented board committees, which may enhance governance framework.
- A higher representation of certified directors will improve the transparency of the board committees
- Acquiring additional licenses may support revenue growth in future.

Internal & External Control Framework



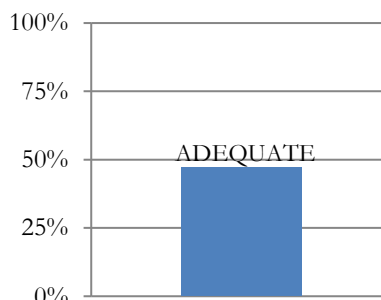
- Having a separate and well-defined conflict of interest policy may be considered.
- Increasing the scope of ETP to include trading windows and blackout periods may enhance its effectiveness.
- External control framework may be strengthened by including director's report, Statement of Compliance, and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

Client Relationship & Fairplay



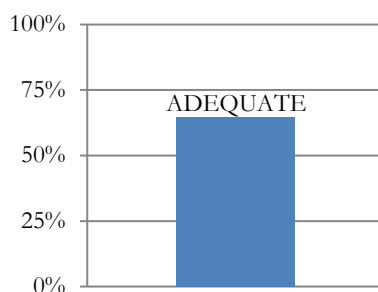
- Client relationship may be improved by increasing online visibility through ads and research reports.
- Improvement in client services through enhancing market research function may further enhance client relationship.
- Increasing the consistency of the commission structure within the same client category may be considered.
- Geographical diversification into other cities may provide sustainability and growth to the business.

HR & Infrastructure



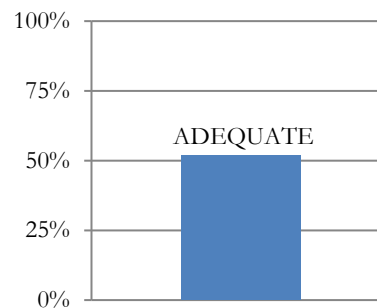
- Presence of a fully integrated ERP platform has been noted.
- Developing a separate, well-defined IT policy may be considered.
- Contingency measures are in place. Improvement may be brought by establishing offsite data warehouses under control of third party.
- Increasing disaster recovery exercises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

Compliance & Risk Management



- Having an independent risk management department will enhance the compliance and risk management framework.
- Presence of a well-defined credit policy is noted.
- Increasing the percentage of IDS clients to minimum 25% may be considered.

Financial Management



- During FY22, the Company's earning profile witnessed deterioration on account of slowdown in industry and decline in trading volumes.
- Decline in core brokerage income led to an increase in the Company's cost to income ratio during FY22.
- Capital loss on investment portfolio also impacted profitability of the Company which recorded a loss of Rs. 47M at year end FY22.
- Liquidity profile of the Company is considered sound.
- Market risk, however, remains elevated, given small equity base.
- Gearing and leverage ratios are low with borrowings only from directors. However, equity erosion was recorded on account of losses in FY22.
- Overall, financial management is considered adequate. Improvement in profitability profile is considered important for preservation of equity, going forward.

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
	03/01/2023	BMR3++	Stable	Reaffirmed
	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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