

BROKER FIDUCIARY RATING REPORT

Fortune Securities Limited

REPORT DATE:

30 September, 2021

RATING ANALYSTS:

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RATING DETAILS

Broker Fiduciary Rating	BFR3 <i>Good Fiduciary Standards</i>
Rating Rationale	The rating signifies sound governance, internal and regulatory compliance, management and client services and adequate business and financial sustainability.
Rating Date	30 September, 2021

COMPANY INFORMATION

Incorporated in 1994	External auditors: M/s Naveed Zafar Ashfaq Jaffery & Co. – Chartered Accountants
Public Unquoted Company	Chairman of the Board: Mr. Shahid Ali
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Anis Ur Rahman
<i>Mr. Anees Ur Rahman ~48%</i>	
<i>Ms. Shamama Arif Rahman ~39.99%</i>	
<i>Mr. Nabeel Tajammal ~7.99%</i>	

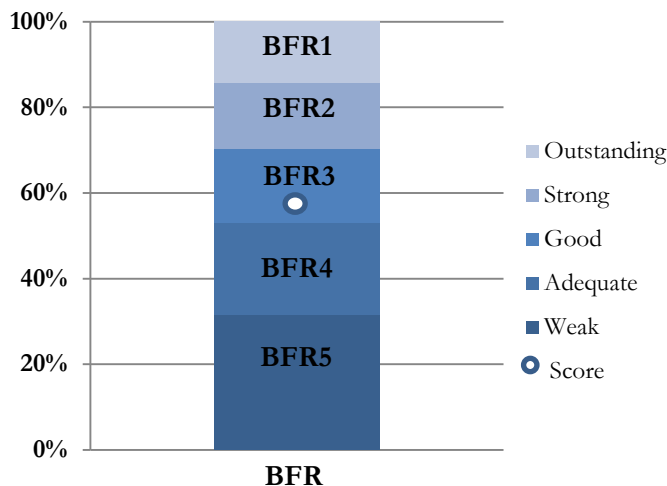
APPLICABLE METHODOLOGY

Applicable Rating Criteria: Broker Fiduciary Ratings 2021
<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

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CORPORATE PROFILE OVERALL GRADING

Fortune Securities Limited (FSL) is a public unlisted company incorporated in 1994. The company is principally engaged in brokerage of shares, securities, securities, commodities, research and other financial instruments. Major shareholding (48%) of the company is vested with Mr. Anis Ur Rahman who serves as the Chief Executive Officer of the company. FSL runs its operations through two of its registered offices located in Karachi.



Fortune Securities Limited has a TREC (Trading Right Entitlement Certificate) for Trading and Clearing Services granted by Pakistan Stock Exchange Limited (PSX). External auditors of the company are M/s Naveed Zafar Ashfaq Jaffery & Co. – Chartered Accountants. Auditors belong to category ‘A’ on the approved list of auditors published by the State Bank of Pakistan (SBP).

Business and Financial Sustainability Indicators

	FY21	FY20	FY19
Size of Net Worth (Rs. In Millions)	269	170	163
Gearing x (Total interest bearing debt/ Total equity)	0.30x	0.22x	0.02x
Leverage x (Total liabilities/ Total equity)	1.44x	1.41x	1.04x
Liquid Assets/ Total Liabilities (x)	0.57x	0.86x	0.90x
Short term Investments/ Total Equity (%)	10%	50%	24%
Market Share (%)	3%	4%	2%
Efficiency (%)	53%	90%	124%

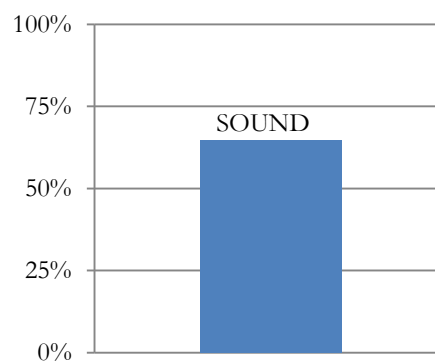
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Rating Indicators

Ownership & Governance

- Currently, the company’s board is represented by three certified members including recent addition of an independent director. Governance framework may be further reinforced by increasing the board size in order to avoid repetition of members in board committees.
- Overall governance framework is sound with good disclosure levels.

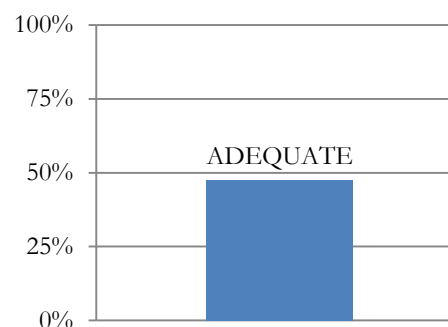
Ownership & Governance



Business & Financial Sustainability

- Improvement in profitability was recorded in FY21 by more than a twofold at PKR 108m (FY20: PKR 30m) Improvement in profitability is mainly attributable to consistent increase in core brokerage income in line with market trend.
- The company’s cost to income ratio also improved to 53% (FY20 90%). Controlled expenses and consistent higher revenues have declined the ratio on a timeline basis.
- Market risk remained minimal during FY21 as quantum of short term investments in relation to equity was reported at 10% (FY20 50%)
- Liquidity profile remains adequate.
- Capitalization indicators increased slightly during FY21; gearing was reported at 0.30x (FY20 0.22x) while leverage was reported at 1.44x (FY20 1.41x).
- Overall, business and financial sustainability of the company remains adequate with low market risk and adequate liquidity levels. Diversifying and increasing revenue streams, maintaining acceptable capitalization levels and improvement in market share will remain important for the rating going forward.

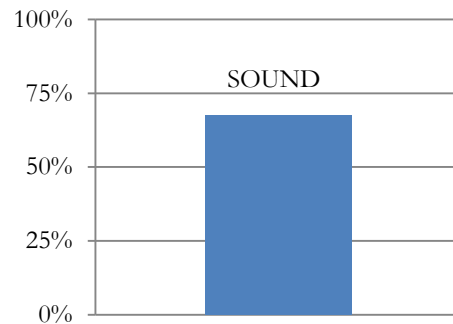
Business & Financial Sustainability



Management & Client Services

- Overall, organizational structure is sound with independent risk management department and fully integrated ERP platform.
- Client servicing procedures are in place, research reports, trading application and sending complaints through web and SMS service are made available to customers for greater facilitation.
- Increasing the frequency of reporting to customers may be considered for further enhancing client management services.

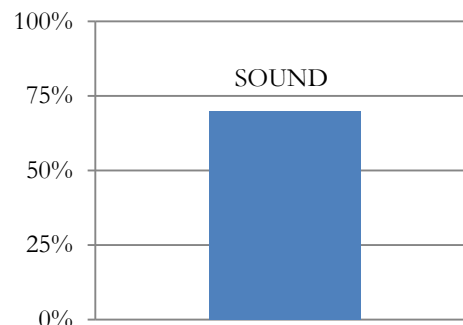
Management & Client Services



Internal Controls & Regulatory Compliance

- Internal control and regulatory compliance is sound.
- Documentation of separate Employee Trading Policy (ETP) and Conflict of Interest Policy (CoI) has been noted. The same may be shared with all stakeholders in order to avoid potential instances of conflict.
- Measures to ensure client confidentiality are in place. Review of internal policies has been prescribed and the same to be maintained on a regular basis.

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.

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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

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REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Fortune Securities 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				
	30/9/2021	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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