

BROKER MANAGEMENT RATING REPORT

KTrade Securities Limited

REPORT DATE:

July 16, 2021

RATING ANALYSTS:

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APPLICABLE
METHODOLOGY:

Broker Management Ratings 2020:

[https://s3-us-west-](https://s3-us-west-2.amazonaws.com/backupsqvis/do)
[2.amazonaws.com/backupsqvis/do](https://s3-us-west-2.amazonaws.com/backupsqvis/do)

Rating Category	Latest Rating
Broker Management Rating	BMR2
Rating Rationale	The rating signifies sound HR & infrastructure; internal and external controls, risk management and client relationship while financial management and regulatory supervision are considered adequate.
Rating Date	16 July, 2021

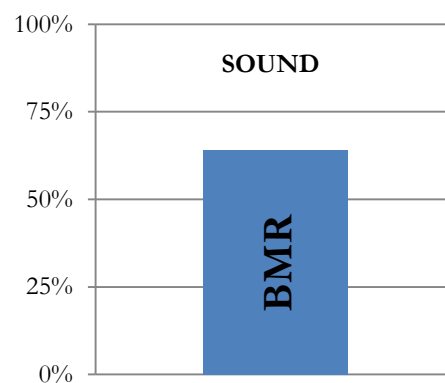
COMPANY INFORMATION

Incorporated in 2013	External auditors: M/s Naveed Zafar Ashfaq Jaffery & Co Chartered Accountants
Public Unlisted Company	Chairman of the Board: Mr. Muhammad Ali Farid Khwaja
Key Shareholders (with stake 5% or more):	CEO: Mr. Mahmood Ali Shah Bukhari
<i>M/s Oxford Frontier Capital Limited ~52%</i>	
<i>Mrs. Mubashira Bukhari Khwaja ~25%</i>	
<i>Mr. Mahmood Ali Shah Bukhari ~18%</i>	

Corporate Profile

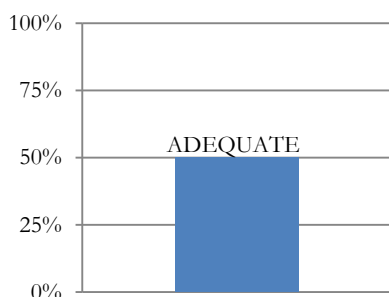
Incorporated in April, 2013, KTrade (formerly known as Khadim Ali Shah Bukhari Securities (Private) Limited has recently converted from a private limited concern to public unlisted company). KTSL is principally engaged in providing brokerage services in stocks, money market instruments, foreign exchange and commodity trading. The company is associated with KASB group, one of the oldest groups operating in the capital markets business. The company also provides research services and Margin Financing Services. Major Shareholding of the company is vested with Oxford Frontier Capital Limited.

KTSL is a public unlisted company holding a Trading Rights Entitlement Certificate (TREC) granted by Pakistan Stock Exchange Limited (PSX.) The company is in the process of updating their auditors to Naveed Zafar Ashfaq Jaffery & Co Chartered Accountants which belong to 'A' category on SBP's approved list of auditors.



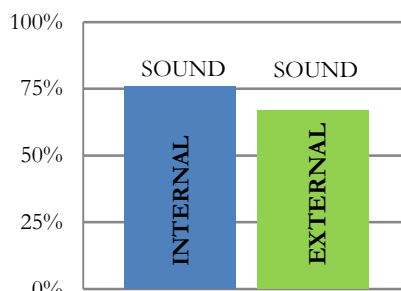
Rating Factors Scores

Regulatory Requirements & Supervision



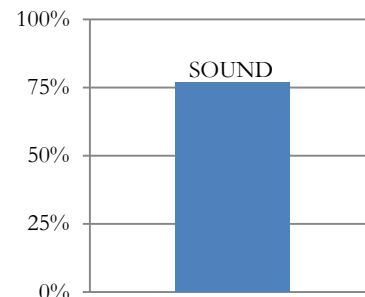
- Overall regulatory supervision framework is adequate; however, limited board size of 3 members and lack of independent representation is a constraint on ratings.
- Recent change to public unlisted company has been noted.
- The company is in the process of revising the board composition in line with best practices.

Internal & External Control Framework



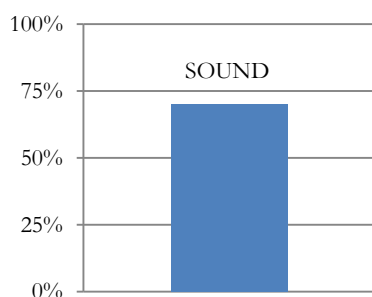
- Well disseminated conflict of interest policy among staff members is noted.
- Daily reporting of personal trades to compliance is viewed positively.
- Procedures are in place for preserving confidentiality of clients together with periodic review of the same.
- The company is in the process of changing their auditors to SBP's approved 'A' category. External disclosure may be further strengthened through inclusion of director's report and CEO's statement in the annual financial statements of the company.
- Overall internal and external control framework remains sound.

Client Relationship & Fairplay



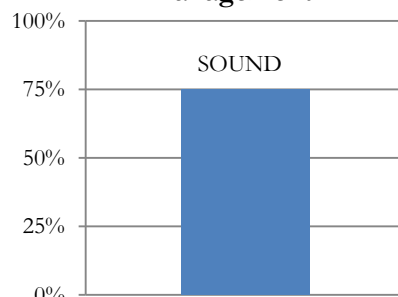
- Client servicing procedures are proficient with mobile trading application, online customer reports and trade execution alerts readily available to customers.
- Communications focus on improving customer understanding.
- Company's overall relationship with clients is considered sound however availability of complaint section on the website header may improve visibility for customer facilitation.

HR & Infrastructure



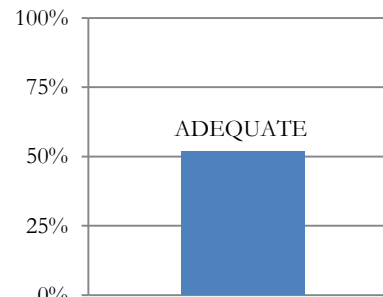
- Fully integrated Enterprise Resource Platform (ERP) is in place.
- Organizational structure is compatible with the size of the company's operations.
- Independent risk management function is viewed positively.
- For further strengthening business continuity systems, back up with third party may be considered.

Compliance & Risk Management



- Segregation and independence of internal audit and compliance departments is viewed positively from ratings perspective, however outsourcing of internal audit to a local firm is noted.
- Periodic review of trade procedures is maintained.
- Low concentration of institutional customers (less than 10%) exposes the company to greater volatility risk.

Financial Management



- The company's topline witnessed significant improvement during FY20 on the back of increased brokerage commission. Revenue base from other sources remains small. Augmenting the same may be considered.
- While efficiency levels recorded improvement in FY20, they remain higher at 142% (FY19: 300%) Higher operating expenses against recurring revenues are a constraint on ratings.
- Liquidity profile remains adequate.
- Overall capital structure of the company is adequate, gearing remained nil while leverage increased to 1.2x (FY19: 0.5x) during FY20.

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.

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.

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.

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.

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.

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	KTrade Securities Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Management Rating (BMR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	RATING TYPE: BMR			
	16/7/2021	BMR2	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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