

## RATING REPORT

### Insight Securities (Private) Limited

**REPORT DATE:**

16 March 2022

**RATING ANALYSTS:**

M. Amin Hamdani

[amin.hamdani@vis.com.pk](mailto:amin.hamdani@vis.com.pk)

Arsal Ayub, CFA

[arsal.ayub@vis.com.pk](mailto:arsal.ayub@vis.com.pk)

RATING DETAILS		
Rating Category	Initial Rating	
	Long -term	Short -term
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	March 16, 2022	

#### COMPANY INFORMATION

Incorporated on March 2016

External auditors: Grant Thornton Anjum Rahman  
Chartered Accountants

Private Limited Company

Director & CEO : Mr. Zubair Ghulam Hussain

Key Shareholders (with stake 5% or more):

Mrs. Munira Ghulam Hussain – 58.33%

Mr. Zubair Ghulam Hussain – 41.67%

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020)

<http://vis.com.pk/kc-meth.aspx>

**Insight Securities**

**OVERVIEW OF THE INSTITUTION**

Insight Securities Limited ('INSL' or 'the Company') is a private company which was incorporated in March 2016 under the Companies Ordinance 1984. The Company is a TREC holder of Pakistan Stock Exchange. The Company's registered office is situated at Business & Finance Centre, Karachi.

**Profile of CEO**

Mr. Zubair Ghulam Hussain has over 20 years of experience in the capital markets. Prior to his current position, Mr Hussain was Head of Equities (2009-2016) at Foundation Securities Private Limited.

**RATING RATIONALE**

Insight Securities (Pvt) Limited ('INSL' or 'the Company') is engaged in provision of equity brokerage services mainly to domestic retail and institutional clients. Established in 2016, INSL is a small-sized brokerage house with market share of 0.9% as of FY21 (FY20: 0.81%). INSL is a family-owned private limited company.

**Sector Update**

- After a dismal performance in FY18 & FY19, volumes of PSX started to rebound with an increase of 32% in FY20, followed by historically high volumes in FY21. (Up 170% YoY).

**Table 1: Industry Trading Metrics (Volume & Value) – Ready**

	FY18	FY19	FY20	FY21	7M'FY21	7M'FY22
<b>Volume (In Billions)</b>	43	37	49	131	70	49
<b>Value (In PKR' Billions)</b>	2,027	1,549	1,789	4,781	2,595	1,688

- The increasing trend in volumes did not sustain in 7M'FY22 as the all share market volumes witnessed a drop of 31% as compared to SPLY. The lack of positive triggers, uncertainty on macro-economic front and global commodity price hike were some of the reasons, which kept the investors at bay.
- Increased underwriting activity was also noted, with Initial Public Offerings (IPOs) being concluded in FY21, raising a sum of Rs. 14b, which was the highest sum mobilized by corporates in 14 years, with the previous best being 12 transactions in FY07. Inclusive of debt issuances, total capital raised during FY21 amounted to Rs. 31b.
- With Pakistan's financial markets still being in their early stages - as derived from market depth and dearth of active investors – the brokerage industry is ripe for dynamic regulatory changes. SECP's regulatory changes, such as the standardization of brokerage commission slabs and division of brokerage industry by size with small-sized brokerage houses being prohibited from taking custody of client assets, were key measures towards industry growth. Additionally, SECP has digitized the account opening process thus facilitating individuals to open accounts online.
- PSX and NCCPL has launched several Exchange Traded Funds (ETFs) and Murabaha Share Financing (MSF) respectively, allowing consumer access to additional investment products at a lower asset management cost, along with access to credit. PSX & SECP has also introduced an alternative board namely Growth Enterprise Market (GEM), for listing of small companies.
- SECP has introduced E-IPO system along with Central Depository Company (CDC) through which investors can subscribe IPO electronically and make e-payments. In coordination with SECP, PSX launched Electronic Initial Public Offering System (PES), which facilitates investors to apply electronically.

**Rating Drivers**

**Rating incorporates market positioning of INSL**

- INSL is a small brokerage company, holding 1.3% market share, in terms of ready share volume as of FY21. As illustrated in table below, market positioning remained intact during the last three financial years.

**Table 2: INSL Market Share (All share-Ready)**

	FY19	FY20	FY21
<b>Volume</b>	1.68%	1.61%	1.33%

- INSL’s profitability has depicted volatility over the years, moving in tandem with stock market volumes. Nevertheless, the Company operates on a lean operating expense model, as reflected by efficiency ratio averaging 69% in the last 5-year period. As depicted in table 3 below, ROAA and ROAE has notably contracted in H1’FY22 in tandem with contraction in market volumes.

**Table 3: P&L Statement (Extract)**

	FY19	FY20	FY21	H1’FY22
<b>Operating Revenue</b>	<b>57.0</b>	<b>60.2</b>	<b>122.5</b>	<b>58.1</b>
- Commission Income	44.2	50.9	105.5	38.9
- Dividend Income	6.8	5.3	13.8	16.4
- Others (research & deposit income)	6.0	4.0	3.2	2.9
<b>Operating Expense</b>	<b>45.2</b>	<b>37.2</b>	<b>60.5</b>	<b>20.1</b>
- Administrative Overheads	43.5	37.0	60.4	20.0
- Finance Cost	1.7	0.1	0.1	0.1
<b>Operating Loss</b>	<b>(4.1)</b>	<b>106.6</b>	<b>225.8</b>	<b>(6.1)</b>
<b>Efficiency (Operating Expense / Operating Revenue)</b>	<b>79.2%</b>	<b>61.7%</b>	<b>49.4%</b>	<b>34.6%</b>
<b>Gain on Re-measurement of Investments</b>	<b>(13.9)</b>	<b>86.1</b>	<b>166.4</b>	<b>(24.8)</b>
- Realized	4.7	84.5	160.0	9.0
- Unrealized	(18.6)	1.6	6.4	(33.8)
<b>Other Income</b>	<b>0.7</b>	<b>4.8</b>	<b>0.5</b>	<b>1.4</b>
<b>Profit After Tax</b>	<b>(7.4)</b>	<b>102.2</b>	<b>182.2</b>	<b>11.9</b>
<b>ROAA</b>	<b>-2.5%</b>	<b>34.3%</b>	<b>32.3%</b>	<b>1.6%</b>
<b>ROAE</b>	<b>-4.1%</b>	<b>44.5%</b>	<b>48.9%</b>	<b>2.5%</b>

- The brokerage commission emanates in equal parts from retail and corporate clientele, as indicated by the last 3-year data. The latest numbers of HY’FY22 depicted that the 55% of the commission emanated from retail clientele. Commission from international clients is almost negligible.
- Given INSL’s limited operational track record, the Company’s brokerage business does depict client concentration, as evident by top-10 clients comprising half of the brokerage commission. Cognizant of the same, the management is focused on growing the sales function.
- As illustrated in Table 3 above, INSL’s bottomline depicts notable correlation with stock market swings. As a result, RoAE is volatile, having dropped to -4.1% for FY19 and subsequently improving in the last 2-year period (FY20-21), before seeing a low of 2.5% in H1’FY22.

**Ratings takes into account Financial Risk Indicators of INSL**

**Liquidity Risk**

- INSL’s liquidity risk profile is supported by quantum of liquid assets on the balance sheet, which amounted to Rs. 486.0m as at Dec’21 (Jun’21: 463.6, Jun’20: 281.4). As a percentage of assets & liabilities, liquid assets comprise 70.7% and 229.0% as at Dec’21, respectively.

- Liquid assets consist of short term investment (proprietary book) of Rs. 340.1m as at Dec'21. Other liquid assets include cash and deposits with NCCPL.

#### Credit Risk

- Credit risk in case of INSL mainly emanates from its trade debtor portfolio. Trade receivables stood at Rs. 154.5m as at Dec'21, comprising a third of the Company's equity base. 45% of the receivable are outstanding from NCCPL, while the remaining (Rs. 84.5m) are outstanding from clientele. Aging profile of client balances is indicative of low credit risk, with 87% of the amount outstanding for a period of less than 1 month.

#### Market Risk

- The market risk is considered high as INSL is carrying a proprietary book of Rs.340.1m against the equity of Rs. 475.5m.
- This translates in a ratio of ST Investments (Prop. Book) to Equity of 72% as at Dec'21 (Jun'21: 84%). The ratio stood at 84% as at Jun'21, and it has averaged 64% during the 3-year period (FY18-20).
- Short term investments (Proprietary book) entirely comprise listed securities. There is an investment policy in place, which prescribes investment limit at 95% of INSL's equity base. The existing portfolio depicts scrip-wise concentration.

#### **Rating incorporates INSL's debt-free balance sheet**

- Given strong RoAE in the past 2-year period (FY20-21), INSL's equity has more than doubled to Rs. 463.6m vis-à-vis Rs. 178.1m as of end-FY19. However, given RoAE of -4.1% in FY19, the equity corrosion during that year stood at 3%. The high sensitivity of INSL's equity to market swings is a rating constraint.
- INSL's has a debt free balance sheet, which has remained debt free historically. Management plans to remain debt averse, with forecasted growth to be achieved organically. Leverage stood at 0.45 as at Dec'21 (Jun'21: 0.68, Jun'20: 0.23).

#### **Ratings incorporate INSL operational status as a Private Limited Company**

- The assigned rating incorporates INSL's operational status as a Private Limited Company.
- Board of Directors comprises of 3 members including CEO. As such, there is no independent representation on the Board.
- Management team at INSL comprises industry professionals, having long standing association with the industry.
- There is a dedicated Research function in place, which includes 3 analysts and the Head of Research. The sales team constitutes 7 employees including Head of Equity Sales, Equity traders and KATS operators.

<b>FINANCIAL SUMMARY (amounts in PKR millions)</b>							<b>Appendix I</b>
<b><u>BALANCE SHEET</u></b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>H1'FY22</b>
Trade Debts	16.1	20.6	8.0	4.9	44.5	36.4	154.5
Long Term Investments	40.1	41.2	31.7	17.9	-	-	-
Short term Investments	50.3	10.8	105.8	104.6	217.2	389.2	340.1
Cash and Bank balances	13.3	253.9	116.1	39.9	44.7	271.6	99.0
Total Assets	131.8	507.1	349.3	247.8	347.4	780.3	687.8
Trade and Other Payables	11.8	254.4	124.4	38.6	65.6	311.2	210.9
Short term borrowings	-	25.0	-	22.5	-	-	-
Paid Up Capital	120.0	120.0	120.0	120.0	120.0	120.0	120.0
Net Worth (excluding revaluation surplus)	97.3	178.6	183.8	178.1	281.4	463.6	475.5
<b><u>INCOME STATEMENT</u></b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>H1'FY22</b>
Total Revenue	5.8	143.8	64.1	41.1	143.8	286.3	30.8
Brokerage Income	4.2	67.7	50.7	44.2	50.9	105.5	38.9
Dividend Income	1.3	3.8	2.6	6.8	5.3	13.8	16.4
Reseach Income	-	-	2.0	4.1	1.5	0.6	0.3
Administrative Expenses	(14.0)	(46.5)	(47.2)	(43.5)	(37.0)	(60.4)	(20.0)
Finance Costs	(0.0)	(1.7)	(1.7)	(1.7)	(0.1)	(0.1)	(0.1)
Profit Before Tax	(8.2)	96.2	16.8	(1.4)	113.8	228.3	13.2
Profit After Tax	(9.5)	81.3	5.3	(7.4)	102.2	182.2	11.9
<b><u>RATIO ANALYSIS</u></b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>H1'FY22</b>
Liquid Assets to Total Liabilities	191.4%	132.1%	193.3%	322.4%	435.6%	229.1%	229.0%
Liquid Assets to Total Assets	50.1%	79.0%	82.9%	85.3%	82.9%	93.0%	70.7%
Leverage	0.35	1.70	0.81	0.37	0.23	0.68	0.45
Gearing	0.23	0.27	0.12	0.13	0.00	0.00	0.00
Current Ratio (x)	6.92	1.54	2.03	3.38	5.18	2.45	3.18
Efficiency (%)	256.4%	66.9%	86.3%	79.2%	61.7%	49.4%	34.6%
ROAA (%)	NA	25.4%	1.2%	-2.5%	34.3%	32.3%	1.6%
ROAE (%)	NA	58.9%	2.9%	-4.1%	44.5%	48.9%	2.5%

## ISSUE/ISSUER RATING SCALE &amp; DEFINITIONS

## Appendix II

**Medium to Long-Term****AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

**Short-Term****A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.com.pk/images/criteria_watch.pdf)

**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](http://www.vis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

**(blr) Rating:** A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Darson Securities Limited				
<b>Sector</b>	Brokerage				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	16-March 2022	BBB+	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
<b>Due Diligence Meetings Conducted</b>		<b>Name</b>	<b>Designation</b>	<b>Meeting Date</b>	
	1	Mr. Zubair Ghulam Hussain	CEO	24 <sup>th</sup> February, 2022	
	2	Mr. Irfan Arif	CFO	24 <sup>th</sup> February, 2022	