

RATING REPORT

Insight Securities (Private) Limited

REPORT DATE:

26 May 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long -term	Short -term	Long -term	Short -term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Stable		Stable	
Rating Date	26 May, 2023		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 (Private) Limited

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 family owned brokerage house operating in Pakistan through its office based in Karachi.

Sector Update

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

	FY18	FY19	FY20	FY21	FY22	10M'FY22	10M'FY23
Volume (In Billions)	43	37	49	131	73	63	40
Value (In PKR' Billions)	2,027	1,549	1,789	4,781	2,405	2,137	1,305

- During FY22, the brokerage and securities sector faced significant challenges due to the poor overall economic situation, a global decline in commodity prices, and political uncertainty. Investor confidence was greatly affected, and this was evident in the performance of the KSE-100 index, which showed lower growth compared to the previous year. The negative sentiment directly impacted the income growth of brokers.
- Trading volumes depicted significant decline on timeline basis, during FY22, trading volumes declined by 44% registering a further decline of 45% where volumes closed at Rs. 40b end 10MFY23.
- Accordingly, in tandem with trading volumes, brokerage revenues declined across the industry. This has dented the profitability of brokerage companies, some of which have slipped into losses. Additionally, low volume of IPOs resulting in reduced underwriting activity during FY22 also contributed to loss of revenue, during the year only three IPOs occurred raising a total of Rs. 1.3b which is considered low as compared to FY21 where the eight IPOs were witnessed raising over Rs. 20.0b.
- Recently PSX has launched a new technologically advanced trading platform, called Designated Time Schedule (DTS), replaced by the old trading platform (KATS/Karachi Automated Trading System) due to hardware and software mismatch. The new system is expected to improve security features to better safeguard investors' data and resolve complaints about data leakages and theft. Additionally, to further facilitate brokerage houses and traders, PSX has planned to launch 15 new Trading Right Entitlement Certificates (TREC) licenses which is expected to bring ease for brokers fulfilling minimum financial requirements and to offer trade execution services to retail, institutional and foreign clients along with becoming underwriters for right shares issue and act as agents for share buybacks.

Rating Drivers

Rating incorporates market positioning of INSL

- INSL, holds a market share of 1.6% in terms of the volume of ready and future shares during FY22 and the first half FY23. The company's market positioning remained consistent over the given time period, as shown in the table below.

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

	FY19	FY20	FY21	FY22	HFY23
Volume	1.68%	1.61%	1.33%	1.57%	1.60%

Table 3: P&L Statement (Extract)

	FY19	FY20	FY21	FY22	HFY23
Recurring Revenue	57.0	60.2	122.5	98.8	34.9
- Commission Income	44.2	50.9	105.5	63.5	21.1
- Dividend Income	6.8	5.3	13.8	26.9	-
- Others (research & deposit income)	6.0	4.0	0.6	0.9	-
Operating Expense	45.2	37.2	60.5	67.4	26.4
- Administrative Overheads	43.5	37.0	60.5	67.4	26.4
Operating Loss	(4.1)	106.6	225.8	(37.7)	(49.5)
Efficiency (Operating Expense / Operating Revenue)	79.2%	61.7%	49.4%	67.9%	75.9%
Gain on Re-measurement of Investments	(13.9)	86.1	166.4	(61.9)	(44.1)
- Realized	4.7	84.5	160.0	(5.9)	(4.9)
- Unrealized	(18.6)	1.6	6.4	(56.0)	(39.3)
Other Income	0.7	4.8	0.5	7.6	13.7
Profit/(Loss) After Tax	(7.4)	102.2	182.2	(30.2)	(38.3)
ROAA	-2.5%	34.3%	32.3%	(4.8%)	(10.2%)*
ROAE	-4.1%	44.5%	48.9%	(6.9%)	(-14.0%)*

**Annualized*

- INSL's operating profile has been impacted on account of decline in trading volumes and low trading activity during FY22 and HFY23. Commission income depicts decline on timeline basis, during FY22, commission income declined to 98.8m (FY21 122.5m). However, dividend income of 26.9m in FY22 provided comfort to the operating profile to some extent.
- Operational efficiency depicts deterioration, higher administrative costs coupled with decline in recurring revenues weakened the same. During FY22, the Company's efficiency ratio declined to 68% (FY21 49%). Curtailment of expenses along with diversification in revenue streams to reduce dependence on brokerage commission will remain important going forward.
- Profitability profile was also impacted due to decline in core income, during the year the Company posted a negative bottom-line of Rs. 30m which further deteriorating to 38m end-HFY23. Subsequently, ROAA & ROAE also witnessed decline.
- Revenue mix did not witness any major changes during the year. In line with historical trend, the Company's brokerage commission emanates from both domestic retail and corporate clientele. During FY22, 52% of the revenues emanated from retail clients while 47% was generated from corporate clients.

The same momentum continued end HFY23 along with a marginal contribution from foreign institutions.

Ratings also takes into account Financial Risk Indicators of INSL

Liquidity Risk

- INSL's liquidity profile is considered to be sound as it is backed by a sound liquid asset base of Rs. 453m. Liquid asset base comprises of short term investments of Rs. 363m, cash and bank balances of Rs. 65m and remaining is comprised of deposits held with PSX and NCCPL.
- During FY22, liquid assets amounted to Rs. providing 5.4x (FY21 2.3x) times coverage from total liabilities of Rs. 83.1m. Current ratio also improved to 6.5x during HFY23 (FY22 6.4x, FY21 2.4x)

Credit Risk

- Credit risk of the Company is considered to remain manageable as trade receivables stood at Rs. 22m during FY22 in relation to equity base of Rs. 433m. Aging profile of client balances is also indicative of manageable credit risk, with 5587% of the amount outstanding for a period of less than 1 month while remaining 22% and 10% are recovered in less than 60 and days respectively.

Market Risk

- The Company's market risk continues to remain on the higher side as INSL carries a proprietary book of Rs.363m against the equity of Rs. 433m translating in a ratio of ST Investments (Prop. Book) to Equity of 84% at both FY22 and end-HFY23. In line with historical trend as prescribed by the Company's investment policy, entirety of the Company's short term investment portfolio is vested with listed securities.

Rating incorporates INSL's sustained capitalization indicators.

- The Company has a balance sheet with no outstanding debt, maintaining its position consistently throughout the years. The management is committed to preserving a debt-averse strategy, aiming to achieve projected growth through organic means.
- Equity base declined to Rs. 395m end-HFY23 (FY22 Rs. 433m, FY21 Rs. 464m) on account of negative bottom-line however, gearing remained nil and leverage indicator was 0.19x end-HFY23 and FY22.

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. Inclusion of independent director and certified members would further improve the governance framework of the Company.
- 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.

FINANCIAL SUMMARY (amounts in PKR millions)						Appendix I
BALANCE SHEET	FY18	FY19	FY20	FY21	FY22	HFY23
Trade Debts	8.0	4.9	44.5	36.4	22.9	20.7
Long Term Investments	31.7	17.9	-	-	-	-
Short term Investments	105.8	104.6	217.2	389.2	363.2	335.5
Cash and Bank balances	116.1	39.9	44.7	271.6	65.2	43.5
Total Assets	349.3	247.8	347.4	780.3	516.5	471.8
Trade and Other Payables	124.4	38.6	65.6	311.2	76.1	68.6
Short term borrowings	-	22.5	-	-	-	-
Paid Up Capital	120.0	120.0	120.0	120.0	120.0	120.0
Net Worth (excluding revaluation surplus)	183.8	178.1	281.4	463.6	433.3	395.0
INCOME STATEMENT	FY18	FY19	FY20	FY21	FY22	HFY23
Total Recurring Revenue	56.6	57.0	60.2	122.5	98.8	34.9
Brokerage Income	50.7	44.2	50.9	105.5	63.5	21.1
Dividend Income	2.6	6.8	5.3	13.8	26.9	-
Research Income	2.0	4.1	1.5	0.6	0.9	-
Administrative Expenses	(47.2)	(43.5)	(37.0)	(60.4)	(67.4)	(26.4)
Finance Costs	(1.7)	(1.7)	(0.1)	(0.1)	0.1	(0.1)
Profit Before Tax	16.8	(1.4)	113.8	228.3	(30.0)	(35.8)
Profit After Tax	5.3	(7.4)	102.2	182.2	(30.8)	(38.3)
RATIO ANALYSIS	FY18	FY19	FY20	FY21	FY22	HFY23
Liquid Assets to Total Liabilities	193.3%	322.4%	435.6%	229.1%	545.2%	531.2%
Liquid Assets to Total Assets	82.9%	85.3%	82.9%	93.0%	87.7%	86.4%
Leverage	0.81	0.37	0.23	0.68	0.19	0.19
Gearing	0.12	0.13	0.00	0.00	0.00	0.00
Current Ratio (x)	2.03	3.38	5.18	2.45	6.40	6.49
Efficiency (%)	86.3%	79.2%	61.7%	49.4%	67.7%	75.9%
ROAA (%)	1.2%	-2.5%	34.3%	32.3%	0.0%	-13.0%*
ROAE (%)	2.9%	-4.1%	44.5%	48.9%	-6.9%	-17.8%*

*Annualized

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Insight Securities (Private) Limited				
Sector	Brokerage				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	26-May 2023	BBB+	A-2	Stable	Reaffirmed
	16-March 2022	BBB+	A-2	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.				
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Due Diligence Meetings Conducted	Name		Designation	Meeting Date	
	1	Mr. Zubair Ghulam Hussain	CEO	30 th March, 2023	
	2	Mr. Irfan Arif	CFO	30 th March, 2023	