

RATING REPORT

Insight Securities (Private) Limited

REPORT DATE:

20 September 2024

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	20 September, 2024		May 26, 2023	
Rating Action	Reaffirmed		Reaffirmed	

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 Ratings

<https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

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

Sector Update

During FY24, PSX achieved the highest equity market performance globally, with its KSE-100 Index soaring to 78,444.96, a significant increase from 41,452.69 in FY23. The index recorded an impressive annual return of 89% in PKR terms and 94% in USD terms, led by appreciation of the Pakistani Rupee against the US Dollar. The surge was driven improved economic indicators such as increased exports and remittances, a notable decline in inflation, and favorable political and financial developments, including the successful completion of the IMF Stand-by Agreement and a smoother transition of government.

Going forward, it is expected that the positive growth momentum will likely continue into FY25, supported by expected earnings growth and the prospect of a new Extended Fund Facility (EFF) with the IMF. The IMF program is expected to further boost market momentum and attract foreign inflows, improving Pakistan's external financial position. However, potential risks, including unexpected devaluation of the PKR and rising international oil prices, could pose challenges. Consecutive policy rate cuts with expectations of further decline in interest rates is likely to support market volumes.

Table 1: Industry Trading Metrics – KSE 100 All share

	FY19	FY20	FY21	FY22	FY23	FY24
Volume (In Billions)	37	49	131	73	47	112
Value (In PKR' Billions)	1,549	1,789	4,781	2,406	1,504	3,796

Rating Drivers
Ratings incorporate small market share of the Company

- INSL can be categorized as a small sized brokerage company, with the retail clients dominating the client mix, accounting for around 70% of the client base.
- Going forward, the Company plans to expand its client base through its online trading platform, launched in the preceding year. Hence, enhancement in the client base to further boost the market share will remain important for ratings.

Table 2: P&L Statement (Extract)

Figures in PKR' Millions	FY21	FY22	FY23	9MFY24
Recurring Revenue	122.5	98.8	72.1	111.3
- Commission Income	105.5	63.5	40.0	73.6
- Dividend Income	13.8	26.9	21.1	25.0
- Others (research & deposit income)	3.2	8.4	11	12.7
Operating Expense	60.5	67.1	51.5	57.2
- Administrative Overheads	60.4	67.4	50.5	57.0
Profit/(Loss) before Tax	228.3	(30.2)	(38.6)	214
Efficiency	49.4%	67.9%	71.5%	51.3%
Profit/(Loss) After Tax	182.2	(30.93)	(44.3)	201.2

ROAA	32.3%	(4.8%)	(8.8%)	30.2%
ROAE	48.9%	(6.9%)	(10.8%)	41.1%

- In line with the industry trend, wherein brokerage volumes have increased, the brokerage revenue of the Company experienced a significant uptick during 9MFY24. Additionally, the Company has also observed notable contribution from dividend income. Nevertheless, brokerage revenue continues to dominate the revenue mix, with around 66% of the total revenue stemming from the same. Hence, business risk of the Company remains elevated.
- Increase in brokerage revenue was largely driven by retail clients, followed by increase in institutional clients. Currently, retail clients account for ~53.4% of the brokerage revenue while institutional clients comprise ~46.6% of the brokerage revenue.
- Consequently, operational efficiency has notably improved during the period, reaching a moderate level of 51.3% in 9MFY24 (FY23: 71.5%, FY22: 67.9%).
- The profitability of the Company was largely supported by realized gains on sale of investment. In 9MFY24, profit after tax was reported at Rs.201.1m (FY23: Rs.44.3m, FY22: Rs.30.93m).
- Going forward, further improvement in core brokerage income, diversity in revenues along with maintenance of operational efficiency will remain important for ratings.

Ratings also considers Financial Risk Indicators

Liquidity Risk

- The liquidity profile is considered sound, with liquid assets providing 2.69x coverage against its total liabilities as at March'24. Short-term investments represent around 75% of the Company's liquid assets, while the remainder comprising cash and NCCPL deposits.

Credit Risk

- The Company follows a conservative strategy wherein no credit limits is extended to the customer, thereby encompassing a low credit risk profile. Additionally, the Company's credit risk profile also draws comfort from its proportion of trade being conducted through institutional delivery system (IDS).
- Receivable ageing of the Company is considered manageable, given that around 90% of the receivables will be recovered between 1-30 days.

Market Risk

- In line with the investment policy, the Company has maintained a higher market risk, with investments booked primarily in equity securities.
- The quantum of short-term investments accounted for around 86% of the equity as at March'24.

Growth in equity base as well as debt-averse strategy provides support to the Company's capitalization profile

- During 9MFY24, the Company's equity base depicted a significant increase on the back of windfall profits during the same period, with equity rising to Rs. 590m (FY23: 389.0m, FY22: Rs. 433.3m).
- The Company's capitalization profile also draws support from no debt on its book. Notably, the Company has banking lines of Rs. 300m, however, it has remained unutilized. The gearing and leverage indicators were reported at 0.00x and 0.43x (FY23: 0.03x and 0.35x, FY22: 0.00 and 0.26x) respectively in 9MFY24.

INSL Corporate Governance Structure

- The governance profile of the Company is considered adequate. At present, the Company's board consists of three directors, with no independent directors. Inclusion of independent and certified members in the board may further strengthen the governance framework. Additionally, the Company has two board committees namely audit and HR committee. Expanding the board size may facilitate in formulation of more board committees and avoid repetition of members in the same.

FINANCIAL SUMMARY (amounts in PKR millions)					Appendix I
<u>BALANCE SHEET</u>	FY20	FY21	FY22	FY23	9MFY24
Trade Debts	44.5	36.4	22.9	69.7	118.1
Long Term Investments	-	-	-	-	-
Short term Investments	217.2	389.2	363.2	329.9	511.6
Cash and Bank balances	44.7	271.6	65.2	33.2	137.3
Total Assets	347.4	780.3	516.5	488.5	844.9
Trade and Other Payables	65.6	311.2	76.1	90.6	244.4
Short term borrowings	-	-	-	-	-
Paid Up Capital	120.0	120.0	120.0	120.0	120.0
Net Worth (excluding revaluation surplus)	281.4	463.6	433.3	389.0	590.2
<u>INCOME STATEMENT</u>	FY20	FY21	FY22	FY23	9MFY24
Total Recurring Revenue	60.2	122.5	98.8	72.1	111.3
Brokerage Income	50.9	105.5	63.5	40.0	73.6
Dividend Income	5.3	13.8	26.9	21.1	25.0
Research Income	1.5	0.6	0.9	4.3	1.8
Administrative Expenses	(37.0)	(60.4)	(67.4)	(50.5)	(57.0)
Finance Costs	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Profit Before Tax	(60.4)	228.3	(30.2)	(38.6)	214.0
Profit After Tax	(60.4)	182.2	(30.9)	(44.3)	201.2
<u>RATIO ANALYSIS</u>	FY20	FY21	FY22	FY23	9MFY24
Liquid Assets to Total Liabilities	435.6%	229.1%	545.2%	381.7%	268.9%
Liquid Assets to Total Assets	82.9%	93.0%	87.7%	77.7%	81.1%
Leverage	0.23	0.68	0.19	0.26	0.43
Gearing	0.00	0.00	0.00	0.00	0.00
Current Ratio (x)	5.18	2.45	6.40	5.11	3.33
Efficiency (%)	61.7%	49.4%	67.9%	71.5%	51.3%
ROAA (%)	34.3%	32.3%	-4.8%	-8.8%	30.2%
ROAE (%)	44.5%	48.9%	-6.9%	-10.8%	41.1%

Insight Securities (Private) Limited

REGULATORY DISCLOSURES				Appendix II	
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				
	20-September 2024	BBB+	A-2	Stable	Reaffirmed
	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	August 20, 2024	
	2	Mr. Irfan Arif	CFO	August 20, 2024	