

## BROKER FIDUCIARY RATING REPORT

### Floret Commodities Private Limited

**REPORT DATE:**

August 05, 2024

**RATING ANALYSTS:**

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#### RATING DETAILS

<b>Broker Fiduciary Rating</b>	<b>BFR3</b> <i>Good Fiduciary Standards</i>
<b>Rating Rationale</b>	The rating signifies adequate ownership and governance, internal controls and regulatory compliance, management and client services and business and financial sustainability.
<b>Rating Date</b>	August 05, 2024

#### COMPANY INFORMATION

<b>Incorporated in 2015</b>	<b>External auditors:</b> M/s. Nasir Javaid Maqsood Imran Chartered Accountants
<b>Private Limited Company</b>	<b>CEO/Chairman of the Board:</b> Mr. Abdul Aleem
<b>Key Shareholders (with stake 5% or more):</b>	
<i>Mr. Abdul Aleem ~99.75%</i>	

#### APPLICABLE METHODOLOGY

**Applicable Rating Criteria: Broker Fiduciary Ratings:**

<https://docs.vis.com.pk/Methodologies%202024/Broker-Fiduciary-Rating.pdf>

#### APPLICABLE RATING SCALE(S)

**VIS Issue/Issuer Rating Scale:**

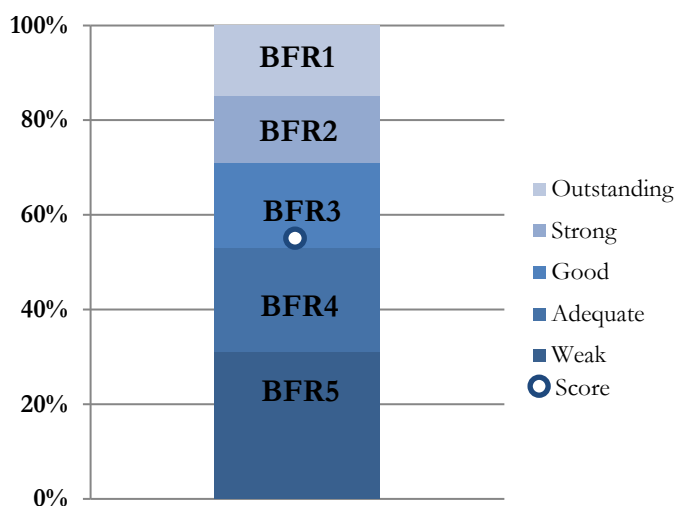
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

**Floret Commodities Private Limited**

**CORPORATE PROFILE OVERALL GRADING**

Floret Commodities Private Limited was incorporated in 2015, under the Companies Act 2017. The Company is involved in the brokerage of commodities through Pakistan Mercantile Exchange Limited (PMEX). Recently, the Company is planning to expand its scope of services into equity market. Therefore, the Company is in the process of seeking a Trading & Self Clearing license from the Securities Exchange Commission of Pakistan (SECP).

The Company is owned by Abdul Aleem. He and his son Sameer Piracha is actively involved in the business.



Floret Commodities is a private limited company holding Trading Rights Entitlement Certificate (TREC) granted by Pakistan Mercantile Exchange Limited (PMEX), and is registered with SECP. External auditors of the company are Nasir Javaid Maqsood Imran Chartered Accountants and they belong to category ‘B’ on the approved list of auditors published by the State Bank of Pakistan (SBP).

**Business and Financial Sustainability Indicators**

	<b>FY23</b>	<b>HFY24</b>	<b>FY25*</b>	<b>FY26*</b>
<b>Size of Net Worth (Rs. In Millions)</b>	48.2	94.02	338.6	449.5
<b>Gearing x (Total interest bearing debt/ Total equity)</b>	0.00x	0.00x	0.00x	0.00x
<b>Leverage x (Total liabilities/ Total equity)</b>	0.10x	0.15x	0.12x	0.10x
<b>Liquid Assets/ Total Liabilities (x)</b>	1.54x	4.95x	3.73x	9.58x
<b>Short term Investments/ Total Equity (%)</b>	-	55.9%	40.3%	90.6%

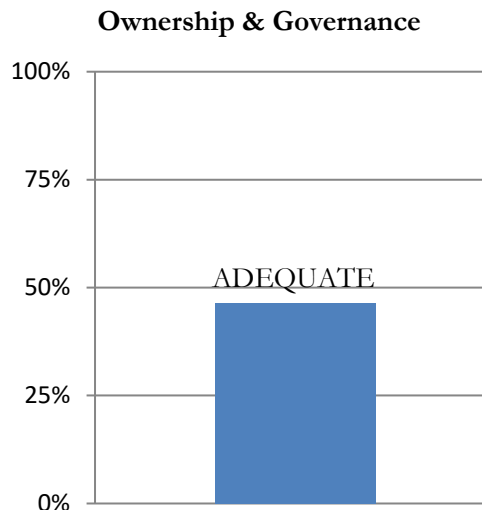
*\*Projected Accounts*

**Floret Commodities Private Limited**

**Rating Indicators**

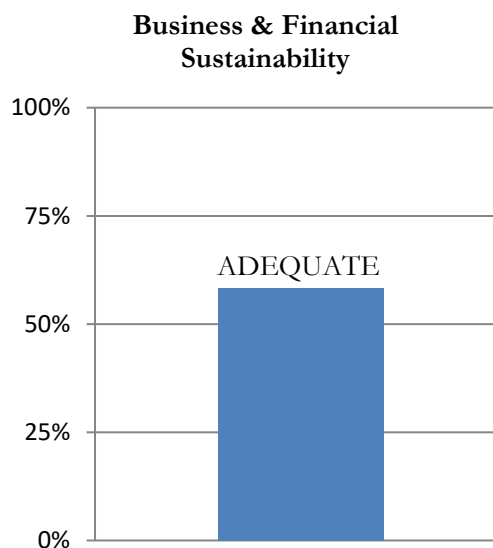
**Ownership & Governance**

- The Company is owned by sponsor director Abdul Aleem. The Board at present, comprises of only two sponsor directors. The Board regularly meets every quarter for regular board meetings, however, no board level committees have been constituted. As per management, formulation of audit committee is in the pipeline.
- Overall governance framework may be strengthened through increasing the number of directors and inclusion of certified and independent members in the board. This may facilitate formulation of additional board level committees.
- Disclosure levels are considered adequate. Inclusion of CEO's statement regarding fraudulent activities as well as appointment of 'A' category auditors from SBP's approved panel of auditors may further strengthen disclosure and external control framework.



**Business & Financial Sustainability**

- Since the Company is still in the process of acquiring the equity brokerage license, we have assessed the business and financial sustainability on not only current position but also on projected financials of the Company which incorporates the equity brokerage business also.
- The Company has only taken active market operations within the last two years booking reasonable gains and boosting equity to present Rs.94m. While equity brokerage is expected to increase revenue streams, management projects to book significant capital gains on propriety book. On average, brokerage revenue is likely to contribute 30-35% to total income. Augmenting the same will remain important for financial sustainability.
- Projected cost to income ratio remains on the higher side based on recurring income basis. Curtailment of administrative expenses along with increasing recurring income through revenue augmentation may be considered to improve operational efficiency.



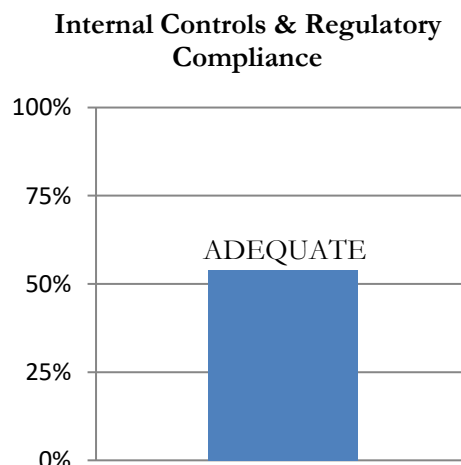
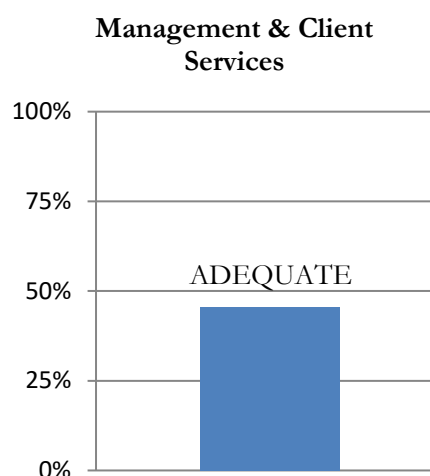
- Liquidity profile of the Company is considered sound. Liquid assets provide 4.95x at HFY24 (FY23 1.54x) times coverage to total liabilities. Projected liquidity is also considered sound. However, market risk exposure remains elevated based on projected balance sheet. An increasing propriety book will expose the Company to market movements.
- Capitalization indicators are considered sound. However, relatively smaller equity base is a constraint on the rating.
- Going forward, improvement in Company’s earning profile along with diversifying business, improvement in market share and maintenance of liquidity and capitalization indicators will remain important for the rating.

**Management & Client Services**

- The Company is in the process of developing a trading platform for equity trading although commodity trading platform is currently in operation. Availability of a trading platform encompassing all client facilitation tools will remain important for rating.
- At the same time, a full scope research department is also being planned. Establishment of the same will also be important for assigned rating.
- The Company adequately provides investor grievance communication forms. Maintenance of the same along with tracking mechanism on mobile application will be important.
- Establishing adequate backup arrangements for data with third party and formulation of business continuity plans will be important.

**Internal Controls & Regulatory Compliance**

- Internal Controls and regulatory compliance are considered adequate. At present, the Company is establishing various internal policies along with enhancing the scope of the same.
- Formulation of Employee Trading Policy and Conflict of Interest Policy and sharing the same with all stakeholders will remain an important factor.
- Establishing timelines for review of policies and development of trade review procedures along with periodic review of order recording may be considered.



- Segregating internal audit and compliance functions and establishment of a risk management function will remain important for internal control framework.

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***Broker Fiduciary Rating Explained***

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*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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**Floret Commodities Private Limited**

REGULATORY DISCLOSURES		Appendix I		
<b>Name of Rated Entity</b>	Floret Commodities Private Limited			
<b>Sector</b>	Brokerage			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Broker Fiduciary Rating (BFR)			
<b>Rating History</b>	<b>Rating Date</b>	<b>Rating</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: BFR</b>			
	08/05/2024	BFR3	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>	N/A			
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