

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

RATING REPORT

Intermarket Securities Limited

REPORT DATE:

April 25, 2018

RATING ANALYSTS:

Jazib Ahmed – CFA

jazib.ahmed@jcrvis.com.pk

Zaryab Janbaz

zaryab.janbaz@jcrvis.com.pk

RATING DETAILS

	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Rating Category				
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Reaffirm		Stable	
Rating Date	April 25, 2018		August 31, 2017	

COMPANY INFORMATION

Incorporated in 2002	External auditors: Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Un-listed Company	Chairman of the Board: Azneem Bilwani
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Noor Hameed
Azneem Bilwani – 90%	
Muhammad Jawed Moti – 10%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017)

<http://www.jcrvis.com.pk/Images/Securities%20methodology%201%20-2015.pdf>

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Intermarket Securities

OVERVIEW OF THE INSTITUTION

Intermarket Securities Limited is a public limited company incorporated in 2002 under the Companies Ordinance, 1984. The company is a TREC holder. 90% shareholding of the company is held by Mr. Azneem Bilwani (Chairman of the Board) while the remaining 10% is with Mr. Muhammad Jawed Moti

RATING RATIONALE

Intermarket Securities Limited (IMSL) is the flagship company of Intermarket Group (IMG); IMSL primarily provides brokerage services for domestic and international retail and institutional clients. IMSL operates as the financial, equity research and corporate advisory arm of IMG, a group that has interests in construction, real estate and information technology.

Rating Drivers

Corporate Governance: Board level governance and compliance to regulatory requirements is considered sound. Board of Directors (BoD) comprises four members of which one member is an executive director, two non-executive directors and one independent director. All members possess considerable experience in the financial services sector.

Industry: During FY17 market volumes showcased an increase of around 70% largely driven by reclassification of Pakistan Stock Exchange (PSX) from frontier market to emerging market in the MSCI Index. However, during FY18 members of the brokerage industry have exhibited attrition in revenues due to drying out of market volumes. PSX All Share Index volume has declined in HYFY18 by more than 50% compared to corresponding period of last year. Furthermore, market players who maintain a proprietary book have reported higher losses during the year owing to decline in the value of the market index.

Asset Mix: Total assets of the company have witnessed an increase on a time line basis with majority growth manifested in trade debts at end FY17. Total assets have declined on account of lower trade debts at end HY18. Trade debts aging is considered manageable and the same are secured against sufficient collateral. Short term investments exhibited a sizeable increase to Rs. 616.1m (FY17: Rs. 180.8m, FY16: 332.1m) at end-HYFY18, thereby increasing market risk on the balance sheet.

Profitability and Market Share: IMSL's revenue has increased on the back of higher volumes during FY17. Over half of the revenues have been garnered from retail clients. IMSL's profitability vis-a-vis peers was lower in FY17 due to the company's high administrative expenses. IMSL's administrative expenses increased as the management strategized on hiring more personnel largely in light of the recent reclassification of the Pakistan Stock Exchange (PSX) from emerging to frontier market in the MSCI index. During HY18 revenues as well as profitability has declined owing to aforementioned decrease in volumes in PSX all share index. Efficiency has deteriorated on a timeline basis to 122.8% for HY18 (FY17: 106.4%, FY16: 116.30%) as administrative expenses have remained constant whereas revenue has declined.

Liquidity and Capitalization: Equity of the company increased to Rs. 1,318.2m at end FY17 (FY16: Rs. 648.5m) on account of realized gain on sale of investments (financial assets at fair value through other comprehensive income) and interest free subordinated loan from director. Equity of the company declined to Rs. 969.2m at end HY18 on account of significant reduction of aforementioned director's loan. Due to slight increase in total debt and decline in total equity, leverage and gearing increased to 0.83x and 0.55x (FY17: 0.56x, 0.34x) at end-HY18, respectively.

Underwriting: There were five underwriting mandates undertaken during the year with minimal take up. IMSL has remained compliant with its overall and per party underwriting limits during the period.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix I
<u>BALANCE SHEET</u>			
	<u>31-Dec-17</u>	<u>30-Jun-17</u>	<u>30-Jun-16</u>
Trade Debts	459.2	1,142.2	663.6
ST Investments	616.1	180.8	332.1
LT Investments	77.2	77.2	46.5
Cash and Bank balances	178.9	196.2	86.4
Total Assets	1,773.6	2,052.9	1,364.4
Trade and Other Payables	217.8	231.5	81.2
Long Term Loans (including CM)	16.5	17.0	13.6
Short Term Borrowings	513.0	427.2	597.4
Net Worth	969.2	1,318.2	648.5
<u>INCOME STATEMENT</u>			
	<u>31-Dec-17</u>	<u>30-Jun-17</u>	<u>30-Jun-16</u>
Total Revenue	92.9	332.5	164.6
<i>Brokerage Income</i>	<i>86.1</i>	<i>297.6</i>	<i>149.6</i>
<i>Dividend income</i>	<i>-</i>	<i>2.1</i>	<i>7.7</i>
<i>Underwriting & FAS</i>	<i>6.9</i>	<i>5.8</i>	<i>7.0</i>
<i>IPO commission</i>	<i>-</i>	<i>0.4</i>	<i>0.3</i>
<i>Advisory Income</i>	<i>-</i>	<i>0.4</i>	<i>0.3</i>
Administrative Expenses	(107.0)	(293.5)	(161.2)
Finance Cost	(30.8)	(62.6)	(31.4)
Profit Before Tax	(28.7)	(25.9)	4.4
Profit After Tax	(28.7)	(27.4)	13.9
<u>RATIO ANALYSIS</u>			
	<u>31-Dec-17</u>	<u>30-Jun-17</u>	<u>30-Jun-16</u>
Commission Income / Turnover (Paisa/Share)	6.0	5.6	6.2
Liquid Assets to Total Liabilities (%)	N/A	24.6%	34.1%
Liquid Assets to Total Assets (%)	N/A	68.8%	64.9%
Debt Leverage (x)	0.8	0.6	1.1
Gearing (x)	0.5	0.3	0.9
Efficiency (%)	122.8%	106.4%	116.3%
ROAA (%)	-3.0%	-1.6%	1.1%
ROAE (%)	-5.0%	-2.8%	2.0%

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: JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Intermarket Securities 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				
	25-Apr-18	BBB+	A-2	Stable	Reaffirmed
	31-Oct-17	BBB+	A-2	Stable	Reaffirmed
	21-Feb-17	BBB+	A-2	Stable	Reaffirmed
	20-Nov-15	BBB+	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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	JCR-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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-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. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2018 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				