

RATING REPORT

Intermarket Securities Limited

REPORT DATE:

24 November, 2015

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	Nov. 20, '15	

COMPANY INFORMATION

Incorporated on September 2002	External auditors: Rahman Sarfarz Rahim Iqbal Rafiq, Chartered Accountants
Public Limited Company	Chairman of the Board: Azneem Bilwani
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Shehzad Moosani
Azneem Bilwani – 90% Muhammad Javed Moti – 10%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (May 2015)

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

Intermarket Securities Limited

OVERVIEW OF THE INSTITUTION

Intermarket Securities Limited is a public limited company incorporated 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 Javed Moti.

RATING RATIONALE

Intermarket Securities Limited (IMSL) was incorporated in September 2002 through the acquisition of ING Barings Pakistan's (INGBP) business operations. IMSL is the flagship company of Intermarket Group (IMG) with shareholding split between two individuals; Mr. Azneem Bilwani, Chairman of the Board holds 90% of said shareholding. The company has been revamped during FY15 to focus on the development of the company. Several new head of departments have been appointed during the second half of the fiscal year (Investment Banking, Research, Brokerage and I.T) along with a new Chief Executive Officer to lead them. This team, with the valuable experience through various positions in other organizations, has been brought together to achieve the goals of improved market share, growth in revenue generation, increased underwriting advisory and brokerage activities and adequate support functions.

The company primarily provides brokerage services to clients in both domestic retail and institutional classes. The recent restructuring of the company has been directed to boost core revenue generation through greater institutional presence. A new Executive Director – Broking has been employed to do the same while also tapping into foreign markets. Growth in retail has been witnessed during FY15 as increase in client base of the same jumped from 503 at end-FY14 to 2,221 at end-FY15. Launch of an online portal 'TradeCast' will further aid in boosting these numbers.

IMSL has created a new Investment Banking department and assembled a small team with an experienced head to lead the company in corporate advisory. Being already registered as 'Book Runners', the company intends to build strong corporate relationships with clients and provide them with fund raising advice, directed primarily towards the equity market. Senior management has a conservative view towards underwriting and intends to minimize risk through different measures. IMSL in its first year generated Rs. 8.5m in corporate advisory and underwriting income.

A new Executive Director – Research has been appointed at IMSL to revamp the department and provide strong support to both brokerage and Investment Banking divisions. This has been witnessed through improved report generation and detailed due diligence of target companies for both aspects of the company.

IMSL holds a substantial equity portfolio valued at Rs. 650.7m at end-FY15 which includes Pre-IPO placement in Al-Shaheer Corporation, underwriting take-up shares of PRL and a proprietary book. The portfolio has generated un-realized capital gains of Rs. 378.5m, boosting the bottom line and improving net equity of the company. Going forward, senior management intends to reduce day-to-day activity in the proprietary book using it only for smart, medium-term value investments. Development of an Investment Policy and the subsequent creation of an Investment Committee have been forwarded to the board for formal approval.

Ageing profile of trade debts is considered good with only 3% of the same outstanding for more than 90 days. IMSL only utilizes short term financing channeled towards trading activity. This has respectively placed gearing and debt leverage at a healthy 0.28x and 0.61x. The company has showed y-o-y improvement from the 2008 market crash, reversing accumulated losses and operating in a positive bottom line for the past four years. The company posted a much improved net profit of Rs. 384.7m for FY15 (FY14: Rs. 47.0m) inclusive of un-realized capital gains amounting to Rs. 378.5m.

The company has already established an Underwriting Committee as per the board approved Underwriting Policy which comprises the CEO, Head of Investment Banking and Executive Director – Research. The same gives formal approval of all underwriting and M&A (Mergers & Acquisitions) decisions. The company has limited underwriting as a whole and per party, as per this policy, based on the company's adjusted equity. Goals of increased core revenue generation and support to the top line from corporate relationships are dependent on the performance of the new senior team put together. The same can only be judged over time.

JCR-VIS Credit Rating Company Limited

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

Intermarket Securities Limited

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			Appendix II
<u>BALANCE SHEET</u>	30-Jun-15	30-Jun-14	30-Jun-13
Trade Debts	224.81	277.58	151.13
Long Term Investments	36.00	36.00	36.00
Short Term Investments (Prop. Book)	650.71	221.86	59.60
Cash and Bank balances	49.24	22.39	13.42
Total Assets	1,135.12	700.45	394.87
Trade and Other Payables	169.41	95.29	60.68
Interest Bearing Debt	196.52	275.88	57.35
Short Term running finance	191.78	275.88	57.35
Net Worth	672.19	287.53	240.57
Total Adjusted Equity	706.19	321.53	274.57
<u>INCOME STATEMENT</u>	30-Jun-15	30-Jun-14	30-Jun-13
Total Revenue	107.85	71.08	44.99
Administrative Expenses	50.88	30.63	24.48
Finance Costs	34.80	17.87	15.91
Profit Before Tax	453.46	54.66	86.91
Profit After Tax	384.66	46.96	72.42
<u>RATIO ANALYSIS</u>			
Market Share (Share Turnover) (%)	2.96%	2.34%	2.21%
Liquid Assets to Total Liabilities	163.44%	64.46%	60.70%
Liquid Assets to Total Assets	61.66%	34.87%	18.49%

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Debt Leverage	0.61	1.18	0.44
Gearing	0.28	0.86	0.21
Efficiency (%)	46.33%	43.09%	54.42%
ROAA (%)	41.99%	8.57%	18.70%
ROAE (%)	74.94%	15.76%	32.72%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

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

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

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.

and not on the basis of the credit quality of the issuing entity alone.

'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.

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REGULATORY DISCLOSURES		Appendix IV			
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
	<u>RATING TYPE: ENTITY</u>				
	11/20/15	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.				
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