

## RATING REPORT

### Foundation Securities (Private) Limited

**REPORT DATE:**

November 27, 2017

**RATING ANALYSTS:**

Muniba Khan

*muniba.khan@jcrvis.com.pk*

Sidra Ahsan Qureshi

*sidra.quresbi@jcrvis.com.pk*

#### RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	November 1, 2017	

#### COMPANY INFORMATION

Incorporated in 2005

External auditors: Grant Thornton Anjum Rahman

Private Limited Company

Chairman of the Board: Brig. Wajahat Nazir (Retd)

Key Shareholders (with stake 5% or more):

Chief Executive Officer: Syed Ahmad Abbas Zaidi

Fauji Foundation Pakistan – 95.74%

#### 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>

## Foundation Securities (Private) Limited

### OVERVIEW OF THE INSTITUTION

*Foundation Securities (Private) Limited was incorporated under the Companies Ordinance 1984. The company is a TRE certificate holder of Pakistan Stock Exchange. Grant Thornton Anjum Rahman audited FSL's financial statements for FY16.*

### RATING RATIONALE

Assigned ratings derive strength from its sponsor profile; majority shareholding of Foundation Securities Limited (FSL) rests with Fauji Foundation. Fauji Foundation is one of the largest business conglomerates in Pakistan with strategic investments in fertilizer, power, cement, infrastructure, banking, financial services, consumer goods, oil & gas and other sectors.

#### Key Rating Drivers:

- Business Mix:** FSL is engaged in provision of equity and commodity brokerage. The company has an investment advisory department as well; however, there have been no activity in the same for the past two years. FSL operates through its head office in Karachi and four branches, two in Karachi while one each in Lahore and Islamabad. The company has a sizeable online client base and caters to its retail clients through its branches. FSL also manages a foreign client base, majority of which is a result of its strategic alliance with Macquarie, a global provider of banking, financial, advisory, investment and funds management services. It has presence in 99 locations globally.
- Management Profile:** Senior management team comprises professionals with adequate experience in the financial services industry. In June 2017, there was a change at the helm of the organization. Mr. Ahmad Zaidi was appointed as Chief Executive Officer for FSL; he also serves as Chief Operations Officer of the company. Stability of management team is considered essential for achieving long term goals of the company.
- Governance and Control Framework:** To improve its control environment, the company has recently established an independent department for compliance and internal audit related activities. Existing policy framework may need to be strengthened as the company's operations grow. Given that management does not foresee active participation in any upcoming public underwriting transactions, FSL does not have a formal underwriting policy in place.
- Investments:** The company has parked less than 1% of its assets in the equity market. Given the current portfolio allocation, market risk arising from investments is minimal. Investment decisions related to the proprietary book are taken by a management level committee. A significant Chinese wall between the trader for proprietary book and other equity traders should be in place.
- Revenue Mix:** Over the years, revenue base of the company largely comprised commission income from brokerage activities. More than 2/3rd of equity brokerage income emanated from retail investors. Institutional business also depicted an increase on the back of various block trades facilitated by the company and higher value of shares traded. Given the current downward trend of the equity market, FSL may consider diversifying its revenue stream further in order to sustain its top line; the company is focused towards further building its online and foreign client base in this regard.
- Profitability:** Bottom line of FSL has been supported by steady reduction in finance cost over past few years. Despite higher utilization of running finance, decline in interest rates resulted in an improved profit after tax of Rs. 96.6m (FY16: Rs. 20.7m) for FY17; bottom line also includes a one-time gain on account of sale of PSX shares. Nonetheless, improvement in earnings also emanated from significant growth in top line. ROAE and ROAA of the company was 27.7% (FY16: 8.6%) and 6.3% (FY16: 1.7%) respectively, by end-FY17.
- Liquidity & Capitalization:** Paid-up capital of the company stood at Rs. 304.6m at end-June 2017. Moreover, total equity of the company showcased growth year on year largely on account of profit retention; equity amounted to Rs. 348.4m (FY16: Rs. 241.6m), at end-FY17. There has been regular pay out to shareholders in the form of cash dividends at Rs. 1/share or below. From FY16 onwards, the company made significant recoveries against its outstanding trade debts. Resultantly, total liquid assets increased to Rs. 815.4m (FY16: Rs. 612.9m), as at June 30, 2017. Moreover, proportion of liquid assets to total liabilities also improved to 69.0% (FY16: 65.2%; FY15: 34.3%) at end-FY17.

#### Outlook:

Given that FSL envisages expanding its core operations in the coming years, higher profitability levels will allow the company to build its resource base further. The company plans to improve its bottom line on the back of greater penetration in online and foreign clients segment. Higher anticipated retained profits will translate into a stronger equity base; this may enhance the company's overall business development and risk absorption capacity.

FINANCIAL SUMMARY (Amounts in PKR millions)			Appendix I
<b><u>BALANCE SHEET</u></b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
Trade Debts	294.3	252.6	508
Investments	2.1	3.6	6.2
Cash and Bank balances	813.2	609.4	442.4
Total Assets	1,529.70	1,199.40	1,565.70
Trade and Other Payables	805.3	730.3	1,077.50
Long Term Loans	255	200	200
Short Term Loans - Secured	100	0	0
Net Worth	348.4	241.6	258.7
<b><u>INCOME STATEMENT</u></b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
Total Revenue	349.6	277.3	266.4
Brokerage Income	347.3	269.7	256.9
Advisory Income	0	0	0
Administrative Expenses	278.2	252.3	224.4
Finance Costs	19.4	23.6	14.6
Profit Before Tax	113.9	32.3	56.6
Profit After Tax	96.6	20.7	46.8
<b><u>RATIO ANALYSIS</u></b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
Market Share (Share Turnover) (%)	6.1%	7.6%	7.1%
Market Share (Value Traded) (%)	5.3%	7.2%	6.6%
Liquid Assets to Total Liabilities	69.0%	64.0%	34.3%
Liquid Assets to Total Assets	53.3%	51.1%	28.7%
Debt Leverage	3.4	4.0	5.1
Gearing	101.9%	82.8%	77.3%
Efficiency (%)	80.1%	93.5%	87.3%
ROAA (%)	6.3%	1.7%	3.0%
ROAE (%)	27.7%	8.6%	18.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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](http://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](http://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.

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.

**(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](http://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.

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Foundation Securities (Private) Limited				
<b>Sector</b>	Brokerage				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	1-Nov-17	A-	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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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