

BROKER FIDUCIARY RATING REPORT

Sherman Securities (Private) Limited

REPORT DATE:
25 September, 2023

RATING ANALYSTS:
Shaheryar Khan Mangan
shaheryar@vis.com.pk

RATING DETAILS	
Broker Fiduciary Rating	BFR3+ <i>Good Fiduciary Standards</i>
Rating Rationale	The rating signifies sound internal controls, whereas management and client services, ownership and governance, and financial stability are considered adequate.
Rating Date	25 September, 2023

COMPANY INFORMATION

Incorporated in 2002	External auditors: Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Private Limited Company	Chairman of the board: Mr. Muhammad Samin Younus
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Muhammad Samin Younus
<i>Mr. Muhammad Samin ~90.6%</i>	

APPLICABLE METHODOLOGY

Applicable Rating Criteria: Broker Fiduciary Ratings 2021
<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

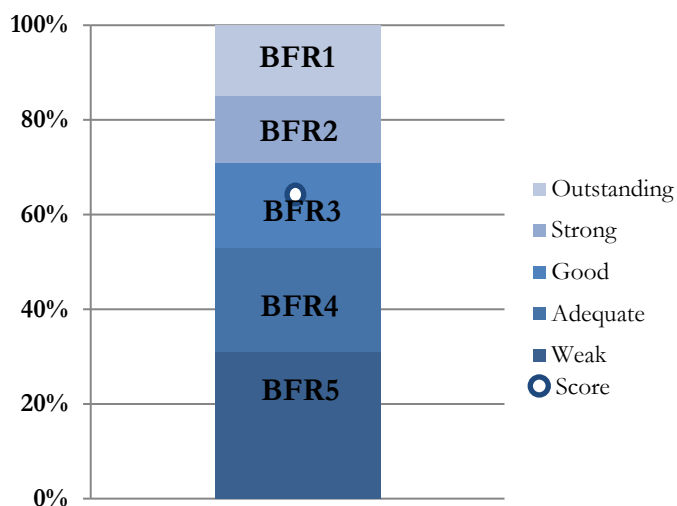
APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Sherman Securities (Private) Limited

CORPORATE PROFILE OVERALL GRADING

Sherman Securities (Private) Limited was incorporated in 2002. The principal activities of the Company are investments, brokerage services, Initial Public Offer (IPO) underwriting, investment and portfolio management. Majority shareholding is vested with Mr. Muhammad Samin Younus. The Company operates through its head office which is based in Karachi.



SSPL is registered with Securities & Exchange Commission of Pakistan (SECP) and holds Trading Rights Entitlement Certificate (TREC) for Trading and Self Clearing (TSC) granted by Pakistan Stock Exchange Limited (PSX). External auditors of the company are Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants. External auditors are from Category ‘A’ of State Bank of Pakistan’s list of auditors.

Business and Financial Sustainability Indicators

	FY23*	FY22	FY21
Size of Net Worth (Rs. In Millions)	661	792	1,242
Gearing x (Total interest bearing debt/ Total equity)	0.61x	0.65x	0.26x
Leverage x (Total liabilities/ Total equity)	0.92x	0.77x	0.35x
Liquid Assets/ Total Liabilities (x)	1.83x	2.09x	3.56x
Short term Investments/ Total Equity (%)	139%	153%	117%

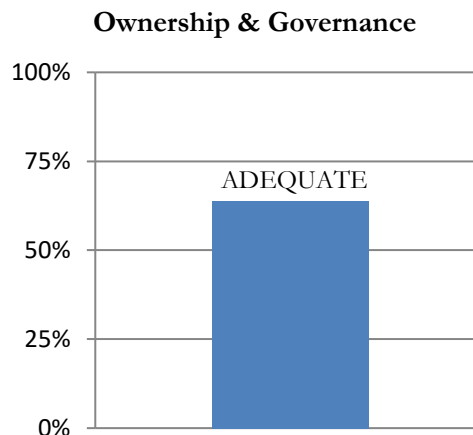
*Unaudited Accounts

Sherman Securities (Private) Limited

Rating Indicators

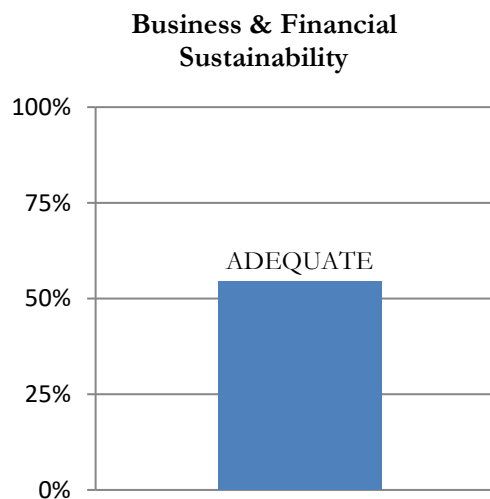
Ownership & Governance

- The Board of directors consists of 5 members, inclusive of an independent director. Similarly, the Company also has three board committees namely audit, HR and investment committee.
- Overall governance framework may be strengthened through inclusion of certified members on the board.
- The disclosure levels of the Company are considered to be sound, with auditor’s report, director’s report, CEO’s statement and statement of compliance presented in the financial statements.



Business & Financial Sustainability

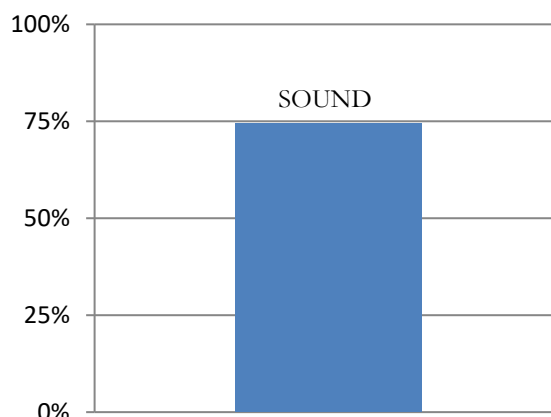
- Following posting a sizeable profit in FY21, profitability has taken a toll wherein the Company sustained significant losses in FY22 and FY23 on the back of capital losses coupled with the decline in brokerage revenue owing to contraction in trading volumes.
- Cost to income ratio has worsened and has reached a higher level at 133% in FY23 (FY22: 115%, FY21: 121%), which is mainly driven by the deterioration in operating income.
- Exposure to market risk is higher on account of sizable proprietary book maintained by the Company. Short term investments in relation to equity stands at 139% in FY23 (FY22: 153%, FY21: 117%).
- Liquidity profile of the Company is considered sound, with liquid assets providing 1.83x coverage to total liabilities at Jun’23 (Jun’22: 2.09x, Jun’21: 3.56x).
- Gearing and leverage indicators of the Company are considered adequate. In tandem with the Company’s losses, equity has also eroded in Jun’23 to reach at Rs.661m (Jun’22: 792m, Jun’21: 1242m).
- Augmenting the revenue base, improving capitalization indicators and operational efficiency as well as managing market risk will remain important, going forward.



Management & Client Services

- Overall client servicing procedures are considered adequate. Multiple tools and resources are present for clients in executing online transactions. The Company's research material consists of equity research reports, which are disseminated to their clients.
- The Company has maintained off-site backups under own control. However, outsourcing the same to a third party may strengthen the Company's contingency measures.
- Geographic diversification may assist in future growth of the Company.

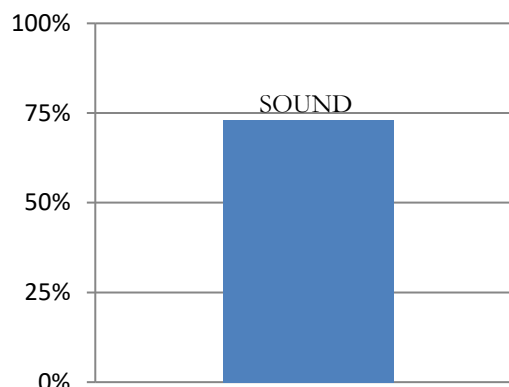
Management & Client Services



Internal Controls & Regulatory Compliance

- Overall, internal controls and regulatory compliance framework is considered sound.
- Policies and procedures are in place to ensure confidentiality of sensitive information and to avoid conflict of interest, however dissemination of polices and enhancing the scope of the same may be considered to further strengthen the same.
- IDS clients account for up to 50% of the total traded value, boding well for the rating.

Internal Controls & Regulatory Compliance



Broker Fiduciary Rating Explained

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.

Sherman Securities (Private) Limited

REGULATORY DISCLOSURES		Appendix II		
Name of Rated Entity	Sherman Securities (Private) Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Fiduciary Rating (BFR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	RATING TYPE: BFR			
	09/25/2023	BFR3+	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.			
Probability of Default				
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