RATING REPORT

Taurus Securities Limited

REPORT DATE:
December 3, 2019

RATING ANALYST:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-2	A	A-2
Rating Outlook	Stable		Stable	
Rating Date	*Dec 3, 2019*		*Dec 31, 2018*	

COMPANY INFORMATION

Incorporated in 1993	External auditors: **Grant Thornton Anjum Rahman**
Public Unquoted Company	Chairman of the Board: **Muhammad Ismail Usuf**
Key Shareholders (with stake 5% or more):	Chief Executive Officer: **Syed Zain Hussain**
National Bank of Pakistan– 58.3%	
The Bank of Khyber – 33.0%	
Saudi Pak Industrial and Agricultural Investment Company Limited – 8.3%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Securities Firms (March 2019)
http://vis.com.pk/kc-meth.aspx

Taurus Securities Limited (TSL)

OVERVIEW OF THE INSTITUTION

TSL is a public unlisted company incorporated in 1993. The company provides equity brokerage services along with financial/economic data research analysis. The head office of the company is located in Karachi, while a branch office is also present in Peshawar.

Profile of CEO:

Syed Zain Hussain holds a bachelor's degree from South Eastern University in Marketing. He has over 20 years of work experience in stock brokering and fund management. His responsibilities at TSL include managing the overall operations and resources of the company and working with the board in developing & implementing strategies and making major corporate decisions.

RATING RATIONALE

Taurus Securities Limited (TSL) is an equity brokerage house that is majority owned by National Bank of Pakistan (NBP – rated 'AAA/A-2' by VIS), a state owned entity and one of the largest commercial banks in Pakistan. TSL offers both online and physical trading services to its clients.

Key Rating Drivers:

Brokerage industry continues to be affected by economic cycles. Declining trend in trading volumes over the last two years has impacted topline of the brokerage industry.

Performance of the equity market has remained dismal over the past two fiscal years with dwindling trading volumes largely owing to economic slow-down, increasing interest rate environment and aggressive foreign selling. Decline in market volumes was more pronounced for ready market as compared to future market, where volumes remained stagnant. Till August 15, 2019, KSE-100 index had declined by ~15%; however positive investor sentiment resulting from improving macroeconomic indicators has led to recovery during October to around same levels as those at the start of July.

Given tough market conditions, players with efficient and variable cost structure along with diversified revenue streams managed to remain profitable. On the other side, players with large proprietary books witnessed losses given weak market performance.

PSX Data (Ready + Future)	Volumes (m)	Value (m)
FY17	100,345	4,756,168
FY18	58,401	2,881,120
% change in FY18	**-42%**	**-39%**
FY19	53,515	2,353,988
% change in FY19	**-8.4%**	**-18.3%**

Going forward, focus of brokerage companies remains on cost rationalization, strengthening retail client base and focus on higher margin business. Nevertheless, brokerage sector outlook is expected to remain challenging; impact of recently revised brokerage commission structure for all security brokers and recent uptick in market volumes on TSL's profitability would be tracked by VIS.

Strong sponsor profile with majority stake held by National Bank of Pakistan.

The assigned ratings draw comfort from shareholding structure of the company with NBP holding 58.3% stake in the organization. NBP is a state owned entity and largest public sector bank in the country. Remaining shareholding of the company is vested with Bank of Khyber (BoK) and Saudi Pak. Industrial & Agricultural Investment Company Ltd. (SAPICO). Both parties possess sound risk profile. VIS anticipates that support from sponsors would be forthcoming in case need arises. TSL derives support from the parent company in terms of business generation, and presence of seasoned professionals on the Board. The institution can also draw upon borrowings from NBP secured against hypothecation of receivables through sanctioned credit lines worth Rs. 240m.

Standalone Risk Profile.

TSL continues to maintain a conservative stance and is largely engaged in brokerage services. There is no proprietary book while stock exposure is limited to ready-future arbitrage transactions that entail no market risk; however, a certain amount of settlement risk prevails. The management participates in Margin Trading System (MTS) on a limited scale. Average exposure on MTS has remained within manageable limits and that also in selective scrips duly approved by the Board. The company requires a margin of 40% from retail clients. Margin requirements are strictly adhered to and shares are held as collateral until full payment. Certain institutional clients are members of Institutional Delivery System (IDS) and their transactions are settled directly with CDC without funding by the broker, thereby mitigating credit risk. As such, the company also limits in place for institutional clients, depending on counterparty risk profile.

Trend in operating losses has persisted while management expects the same to be arrested on the back of expense rationalization measures.

Over the last two fiscal years, trend in TSL's operating losses has persisted. Despite reduction in administrative expenses, annualized operating losses more than doubled during 9M2019 vis-à-vis outgoing year, as significant downtick in the stock market contributed to lower commissions. Nonetheless, the company was able to maintain its market share in ongoing year.

Business mix, in terms of share volume depicted a tilt towards institutional clients as retail volumes reduced and represented less than one-third of total volumes. Moreover, the company took cost control measures to manage its operating expenses. As a result, efficiency ratio of TSL improved to 103.6% (2017: 107.5%) in 2018. Although trend in expense reduction continued in 9M2019, lower recurring revenue translated into a higher efficiency ratio of 111.0% which stands on the higher side in relation to peers. Management has embarked on an extensive cost control plan, which includes 1) shift in compensation structure for sales team from fixed to variable 2) ~20% reduction in salaries for all employees. Accordingly, efficiency ratio is projected to reduce to below 100% by end of ongoing year and management projects to achieve breakeven in 2019. The company plans to maintain the same compensation/cost model over the medium term along with focus on high margin institutional clients. Ability to maintain profits at sustainable levels will need to be addressed in the coming years.

Lower profitability has translated into decline in capitalization levels.

Despite increase in short term financing, leverage indicators of the business remain at manageable levels. Liquidity of the business varies in line with the position of the stock market. Liquid assets to liability ratio stood at 87.9% at end-December 2018, reducing to 47.2% at end-June 2019. The variation in ratio is due to the change in trade payables which differs on account of trading a3ctivity which is in line with industry dynamics. Liquid assets of the company comprise cash and bank balances, deposits with the clearing house and its investment portfolio. Net equity has reduced on a timeline basis. Going forward, improvement in earnings profile of the brokerage is considered important for growth in equity base over the coming years.

Taurus Securities Limited — Appendix I

FINANCIAL SUMMARY			(amounts in PKR millions)
BALANCE SHEET	**30-Sep-19**	**31-Dec-18**	**31-Dec-17**
Trade Debts (Net)	48.1	269.2	730.7
Cash and Bank balances	143.6	144.3	218.4
Total Assets	459.1	752.7	1,251.20
Short Term running finance	0.0	239.6	109.9
Total Liabilities	156.2	442.7	902.3
Paid up capital	135.0	135.0	135.0
Total Equity (excluding surplus)	279.2	292.5	317.2
INCOME STATEMENT	**30-Sep-19**	**31-Dec-18**	**31-Dec-17**
Brokerage Income	36.7	96.8	93.4
Recurring Revenue	68.9	123.0	112.2
Administrative Expenses	52.1	124.2	118.8
Finance Costs	0.9	3.4	2.6
Operating (Loss) Gain	-7.6	-4.4	-8.4
Profit Before Tax	-3.5	-4.5	51.3
Profit After Tax	-4.6	-15.7	38.3
RATIO ANALYSIS	**30-Sep-19**	**31-Dec-18**	**31-Dec-17**
Liquid Assets to Total Liabilities (%)	n/a	88%	47%
Liquid Assets to Total Assets (%)	n/a	52%	34%
Gearing (x)	0.00	0.82	0.35
Debt Leverage (x)	0.55	1.5	2.84
Efficiency (%)	111.0%	103.6%	107.5%
ROAA (%)	-1.0%	-1.57%	3.1%
ROAE (%)	-2.1%	-4.89%	12.1%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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
Name of Rated Entity	Taurus 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				
12/3/2019	A	A-2	Stable	Reaffirmed
12/31/2018	A	A-2	Stable	Reaffirmed
10/2/2017	A	A-2	Stable	Reaffirmed
06/28/2016	A	A-2	Stable	Reaffirmed
11/21/2014	A	A-2	Stable	Reaffirmed
12/31/2013	A	A-2	Stable	Reaffirmed
11/26/2012	A	A-2	Stable	Upgrade
12/23/2011	A-	A-2	Stable	Reaffirmed
1/3/2011	A-	A-2	Stable	Reaffirmed

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	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.
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