

RATING REPORT

Taurus Securities Limited

REPORT DATE:

March 24, 2022

RATING ANALYST:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Outlook	Stable		Stable	
Rating Date	March 24, 2022		Jan 18, 2021	

COMPANY INFORMATION

Incorporated in 1993	External auditors: Yousuf Adil Chartered Accountants
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 – 30.0%	
Saudi Pak Industrial and Agricultural Investment Company Limited – 8.3%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Securities Firms (July 2020)

<https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf>

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 a 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.

Sector Update

- After a dismal performance in FY18 & FY19, volumes of PSX started to rebound with an increase of 32% in FY20, followed by historically high volumes in FY21. (Up 170% YoY).

Table 1: Industry Trading Metrics (Volume & Value) – Ready

	FY18	FY19	FY20	FY21	7M'FY21	7M'FY22
Volume (In Billions)	43	37	49	131	70	49
Value (In PKR' Billions)	2,027	1,549	1,789	4,781	2,595	1,688

- The increasing trend in volumes did not sustain in 7M'FY22 as the all share market volumes witnessed a drop of 31% as compared to SPLY. The lack of positive triggers, uncertainty on macro-economic front and global commodity price hike were some of the reasons, which kept the investors at bay.
- Increased underwriting activity was also noted, with Initial Public Offerings (IPOs) being concluded in FY21, raising a sum of Rs. 14b, which was the highest sum mobilized by corporates in 14 years, with the previous best being 12 transactions in FY07. Inclusive of debt issuances, total capital raised during FY21 amounted to Rs. 31b.
- With Pakistan's financial markets still being in their early stages - as derived from market depth and dearth of active investors – the brokerage industry is ripe for dynamic regulatory changes. SECP's regulatory changes, such as the standardization of brokerage commission slabs and division of brokerage industry by size with small-sized brokerage houses being prohibited from taking custody of client assets, were key measures towards industry growth. Additionally, SECP has digitized the account opening process thus facilitating individuals to open accounts online.
- PSX and NCCPL has launched several Exchange Traded Funds (ETFs) and Murabaha Share Financing (MSF) respectively, allowing consumer access to additional investment products at a lower asset management cost, along with access to credit. PSX & SECP has also introduced an alternative board namely Growth Enterprise Market (GEM), for listing of small companies.
- SECP has introduced E-IPO system along with Central Depository Company (CDC) through which investors can subscribe IPO electronically and make e-payments. In coordination with SECP, PSX launched Electronic Initial Public Offering System (PES), which facilitates investors to apply electronically.

Key Rating Drivers:

Strong sponsor profile

- The assigned ratings draw support from strong sponsor profile with majority shareholding of the company vested with National Bank of Pakistan (58.3%). NBP is a state owned entity and largest public sector bank in the country.
- Other major shareholders of the company include Bank of Khyber (BoK) (30.0%) and Saudi Pak. Industrial & Agricultural Investment Company Ltd. (SAPICO) (8.3%). 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. TSL's rating also draws comfort from availability of borrowing lines from NBP, secured against hypothecation of receivables through sanctioned credit line of Rs. 240m.

Rating incorporates TSL's market positioning and long standing operational track record

- TSL has a long-standing operational track record in the domestic brokerage industry spanning 3 decades. TSL has posted market share attrition in the past 3-year period, as illustrated in the table below.

Table 2: TSL Market Share (All share)

	CY18	CY19	CY20	CY21
Volume	3.08%	2.82%	1.94%	1.59%

- Operating overheads grew in tandem with revenues, translating in a similar efficiency ratio as was noted previously. Capital gain on investments generated through ready-future operations, supported TSL's bottom line, which was reported at Rs. 11mn in CY21. ROAA and ROAE of TSL stayed intact at 1.1% and 3.8% in CY21.

Table 3: P&L Statement (Extract)

	CY19	CY20	CY21
Operating Revenue	91.0	142.5	155.6
- Commission Income	75.9	118.5	129.0
- Dividend Income	6.3	-	0.3
- Ready Future Trading Income	8.9	13.3	15.1
- Others	0.0	10.6	11.2
Operating Expense	106.6	129.2	142.5
- Administrative Overheads	103.3	125.5	137.3
- Finance Cost	3.3	3.7	5.1
Operating Profit/ (Loss)	(15.5)	13.2	13.2
Efficiency (Operating Expense / Operating Revenue)	117.1%	90.7%	91.5%
Surplus on Revaluation of investment at FVTPL	0.7	(0.0)	0.3
Other Income	13.9	1.0	0.2
Profit Before Tax	(1.0)	14.2	13.7
Profit After Tax	0.6	10.2	11.0
ROAA	0.1%	1.5%	1.1%
ROAE	0.2%	3.6%	3.8%

- On average (CY19-21), about two-thirds of the brokerage commissions emanates from institutional clients, with the remaining emanating from retail clients. The retail proportion has

been increasing since 2018, given drop in corporate transactions. Going forward, regaining market share will be the management's primary focus, so corporate proportion is likely to increase going forward.

- Efficiency ratio of the company has improved during the last 2-year period. TSL's efficiency stood at 91.5% (CY20: 90.7%, CY19: 117.1%). VIS has incorporated ready future arbitrage income as recurring revenue in the calculation of efficiency ratio.
- Client concentration is considered low as top 66% of the revenue was contributed by 82 clients. The same registered improvement on a timeline basis. Overall recurring revenue diversification (including income from arbitrage) remained intact at 83%, considered high from the ratings perspective.

Ratings Incorporate Financial Indicators of TSL

Liquidity Risk

- TSL's liquidity profile is supported by quantum of liquid asset on the balance sheet, which amounted to Rs. 643.2m as at Dec'21. As a percentage of assets and liabilities liquid assets comprises 60.4% and 79.1% as at Dec'21. (Dec'20: 83.9%, 143.6%)
- Liquid assets mainly consist of Cash & Bank Balances of Rs. 483m as at Dec'21. Deposits with NCCPL and PSX also considered as liquid assets as per VIS methodology.

Credit Risk

- Credit risk in case of SSL mainly emanated from its trade debtor portfolio. Trade receivables stood at Rs. 411m wherein 373m is from NCCPL carrying no risk. The remaining receivable of Rs. 46.2m are client receivables.
- The receivable of Rs. 46.2m is 3% of current assets, which is considered to be manageable.
- Majority (>90%) of the corporate commission is received through IDS and their transactions are settled directly with CDC without funding by the broker, thereby mitigating credit risk.
- The company has limits in place for institutional clients, depending on counterparty risk profile.

Market Risk

- Stock market exposure is limited to ready-future arbitrage transactions that entails no market risk; however, limited 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.

Capitalization indicators stayed at manageable levels

- Given increase in working capital requirements, gearing and leverage ratio of the company rose to 0.64x and 3.24x as at Dec'21. (Dec'20: 0.28x, 1.40x).
- Capitalization profile of the company draws support from the sponsor profile of TSL, as sponsor has committed to inject liquidity on need basis and also made credit lines available to the company.

Adequate corporate governance framework

- Board of directors comprises of eight members including CEO. The independent representation consist of three board members while the remaining are nominee directors. There is a female representation on board.
- Board sub-committees include Audit, HR and Risk Management committees.
- There is an in house internal audit function, which administratively reports to CEO and functionally to Audit committee, while another control department i.e. compliance, reports to CEO and to the Board.
- Adequate internal policy framework is present with professional code of conduct. Investment policy and employee trading policy are also in place.

Taurus Securities Limited
Appendix I

FINANCIAL SUMMARY (amounts in PKR millions)					
Appendix I					
<u>BALANCE SHEET</u>	Dec'17	Dec'18	Dec'19	Dec'20	Dec'21
Trade Debts	731	269	51	41	411
Long Term Investments	36	15	-	-	-
Short term Investments	68	153	177	181	160
Cash and Bank balances	218	144	164	313	483
Total Assets	1,251	753	619	743	1,329
Trade and Other Payables	792	203	181	347	814
Short term borrowings	110	240	130	75	175
Paid Up Capital	135	135	135	135	135
Net Worth (excluding revaluation surplus)	317	292	281	290	297
<u>INCOME STATEMENT</u>	2017	2018	2019	2020	2021
Total Revenue	108	112	91	142	156
Brokerage Income	93	97	76	118	129
Dividend Income	1	0	6	-	0
Capital gain on sale of securities	14	13	9	13	15
Margin Trading System	0	1	0	11	11
Administrative Expenses	(119)	(124)	(103)	(126)	(137)
Finance Costs	(3)	(3)	(3)	(4)	(5)
Profit Before Tax	51	(4)	(1)	14	14
Profit After Tax	38	(16)	1	10	11
<u>RATIO ANALYSIS</u>	2017	2018	2019	2020	2021
Liquid Assets to Total Liabilities	46.7%	87.1%	149.9%	143.6%	79.1%
Liquid Assets to Total Assets	33.7%	51.2%	78.0%	83.9%	60.4%
Leverage	2.59	1.43	1.08	1.40	3.24
Gearing	0.32	0.77	0.47	0.28	0.64
Current Ratio (x)	1.31	1.58	1.79	1.57	1.23
Efficiency (%)	112.4%	114.4%	117.1%	90.7%	91.5%
ROAA (%)	0.0%	-1.6%	0.1%	1.5%	1.1%
ROAE (%)	0.0%	-5.1%	0.2%	3.6%	3.8%

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: 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.

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.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				
	03/22/2022	A	A-2	Stable	Reaffirmed
	01/18/2021	A	A-2	Stable	Reaffirmed
	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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Due Diligence Meetings	S.No	Name	Designation	Date	
	1.	Syed Zain Hussain	CEO	14 th March, 2022	
	2.	Syed Waqar Ul Hassan	CFO	14 th March, 2022	
	3.	Iqbal Rasheed	Chief Internal Auditor	14 th March, 2022	