

RATING REPORT

Taurus Securities Limited

REPORT DATE:

October 4, 2024

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/ Rating Watch	Stable		Negative	
Rating Action	Maintained		Maintained	
Rating Date	October 4, 2024		August 17, 2023	

COMPANY INFORMATION

Incorporated in 1993	External auditors: BDO Ebrahim & Co. 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

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

VIS Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.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 Pesbanar.

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

Company Profile:

Taurus Securities Limited (the Company) is a public unquoted company, incorporated in Pakistan in 1993. The registered office of the Company is situated in Karachi, Pakistan. It is a subsidiary of National Bank of Pakistan (the Holding Company), which holds 58.32% (2022: 58.32%) of the shareholding of the Company. The Company's principal activities are stock brokerage, investment counseling and fund placements. The Company holds a Trading Rights Entitlement Certificate (TREC) from Pakistan Stock Exchange Limited (PSEL) and is holding a trading and self-clearing license.

Sector Update:

During FY24, PSX achieved the highest equity market performance globally, with its KSE-100 Index soaring to 78,444.96, a significant increase from 41,452.69 in FY23. The index recorded an impressive annual return of 89% in PKR terms and 94% in USD terms, led by appreciation of the Pakistani Rupee against the US Dollar. The surge was driven by improved economic indicators such as increased exports and remittances, a notable decline in inflation, and favorable political and financial developments, including the successful completion of the IMF Stand-by Agreement and a smooth transition of government.

Going forward, the bullish trend will likely continue into FY25, supported by expected earnings growth coupled with strengthened prospects of a new Extended Fund Facility (EFF) with the IMF amidst a tax-heavy budget. The IMF program is expected to further boost market momentum and attract foreign inflows, improving Pakistan's external financial position. However, potential risks, including unexpected devaluation of the PKR and rising international oil prices, could pose challenges. Consecutive policy rate cuts with expectations of further decline in interest rates is likely to support market volumes.

Table 1: Industry Trading Metrics - KSE All Shares

PSX- All Share	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Volume (In Billions)	43	37	49	131	73	47	112
Value (In PKR' Billions)	2,027	1,549	1,789	4,781	2,406	1,504	3,796

Key Rating Drivers:

Ratings supported by 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%), a state-owned entity.

- 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.
- Support from the parent company encompasses financial support, business generation, and the presence of seasoned professionals on the board.

Profitability profile has recouped, driven mainly by higher brokerage revenue. Newly acquired commodity trading license to provide support to the Company’s revenue base

Table 2: P&L Statement (Extract)

	CY21	CY22	CY23	6MCY24
Operating Revenue	155.6	124.9	171.5	103.0
- Commission Income	129.0	77.7	98.7	65.4
- Dividend Income	0.3	8.5	7.4	1.6
- Capital gain	15.1	6.2	11.1	4.3
- Others	11.2	32.6	54.3	31.7
Operating Expense	142.5	126.6	141.6	78.9
- Administrative Overheads	137.3	119.7	136.6	74.1
- Finance Cost	5.1	6.9	5.0	4.8
Operating Profit/ (Loss)	13.2	1.5	29.9	24.1
Surplus on Revaluation of investment at FVTPL	0.3	-	-	-
Other Income	0.2	0.1	0.2	0.1
Profit Before Tax	13.7	(1.5)	30.1	24.1
Profit After Tax	11.0	(8.3)	15.4	15.4
ROAA	1.1%	(-0.6%)	1.3%	2.4%
ROAE	3.8%	(2.8%)	5.2%	10.0%

- Following a negative bottom line in CY22, the profitability profile witnessed a rebound in CY23 on the back of higher operating revenue, led by brokerage income due to increased investor activity amid favorable market dynamics, which continued in 6MCY24.
- Mark-up on bank deposits recorded a notable uptick, clocking in at Rs. 47.2m and Rs. 24.8m in CY23 and 6MCY24 respectively. Nevertheless, the revenue mix remained concentrated in brokerage income, constituting around 63% of the Company’s revenue base.
- On average (CY21-CY23), institutional clients contributed around 59% to brokerage revenue. However, their revenue share has declined over this period, while contribution from retail clients have increased on account of the Company’s efforts to expand its retail client base.
- Client concentration is considered low, with the top ten clients making up around 35% of the Company’s brokerage commission.
- The Company has recently acquired a commodity trading license subscribed with Pakistan Mercantile Exchange (PMEX), which is expected to support the Company’s revenue base, going forward.
- Growth in recurring income resulted in an improvement in the efficiency ratio to 72% (CY23: 79%, CY22: 95%) in 6MCY24, albeit efficiency remains on the higher side.

- Going forward, maintaining the profitability profile at adequate levels will remain important for the ratings.

Assigned ratings also take into account the financial risk profile**Liquidity risk**

- The liquidity profile of the Company has depicted weakening, with liquid assets as a percentage of total liabilities declining to 71.4% in 6MCY24 (CY23: 99.2% CY22: 50.9%). This decrease is due to an increase in total liabilities mainly stemming from a buildup in payables to clients against trading of securities and an increase in short-term borrowings for working capital needs.

Market Risk

- The Company does not engage in proprietary investments, thereby minimizing the exposure to market risk and foregoing returns therein, if any. The Company's short-term investments primarily account for investments in Pakistan stock exchange.
- As at Jun'24, short term investments as a percentage of equity stood at 6.1% (Dec'23: 5.1%, Dec'22: 4.2%).

Credit Risk

- As at June'24, trade debts of the Company were recorded at Rs. 527.3m (Dec'23: Rs.209.5, Dec'22: Rs.669.4m). Receivables from National Clearing Company Limited (NCCPL), representing the proceeds of trades through NCCPL, accounted for around 90.2% of the trade debts, which poses no risk, while the remaining are due from clients and associated companies.
- Around 90% of the corporate commission is received through institutional delivery system (IDS), thereby mitigating the Company's credit risk.

Capitalization indicators depict weakening, equity base of the Company remains a constraint

- The capitalization indicators of the Company are considered adequate. While the leverage indicator improved in CY23, it worsened in 6MCY24. Conversely, the gearing ratio of the Company increased in CY23 and further weakened in 6MCY24 due to increased short-term borrowings for working capital needs. The gearing and leverage ratios stood at 0.79x and 3.98x respectively as at Jun'24 (Dec'23: 0.39x and 2.27x, Dec'22: 0.12x and 3.42x).
- The Company's liquidity is supported by the lines of credit available from its main sponsor.
- The Company's equity base, excluding revaluation surplus, increased in CY23 and further in 6MCY24, reaching Rs.317.34m in 6MCY24 (CY23: Rs. 301.9m, CY22:

292.5m). However, the equity base remains small compared to peers. Going forward, enhancement in the same will remain important for future growth.

Corporate governance framework

- The assigned ratings also consider the corporate governance framework of TSL. At present, the Company's board is represented by 8 members, inclusive of 4 independent directors.
- The Company has 3 board committees namely Audit, HR and Risk Management committees.
- Internal controls and regulatory compliance are considered strong, with adequate policies and procedures in place.

Taurus Securities Limited
Appendix I

FINANCIAL SUMMARY (amounts in PKR millions)							Appendix I
<u>BALANCE SHEET</u>	CY19	CY20	CY21	CY22	CY23	6MCY24*	
Trade Debts	51	41	411	669	209	585	
Long Term Investments	-	-	-	-	-	-	
Short term Investments	177	181	160	12	15	20	
Cash and Bank balances	164	313	483	320	373	447	
Total Assets	619	743	1,329	1,302	999	1,595	
Trade and Other Payables	181	347	814	964	569	1,011	
Short term borrowings	130	75	175	10	100	240	
Paid Up Capital	135	135	135	135	135	135	
Net Worth (excluding revaluation surplus)	281	290	297	292.49	301.92	317.34	
<u>INCOME STATEMENT</u>	CY19	CY20	CY21	CY22	CY23	6MCY24*	
Operating Revenue	91	142	156	125	171	103	
Administrative Expenses	(103)	(126)	(137)	(120)	(137)	(74)	
Finance Costs	(3)	(4)	(5)	(7)	(5)	(5)	
Profit Before Tax	(1)	14	14	(2)	30	24	
Profit After Tax	1	10	11	(8)	15	15	
<u>RATIO ANALYSIS</u>	CY19	CY20	CY21	CY22	CY23	6MCY24*	
Liquid Assets to Total Liabilities	149.9%	143.6%	79.1%	50.9%	99.2%	71.4%	
Liquid Assets to Total Assets	78.0%	83.9%	60.4%	39.2%	68.1%	56.5%	
Leverage	1.14	1.50	3.42	3.42	2.27	3.98	
Gearing	0.50	0.30	0.68	0.13	0.39	0.79	
Current Ratio (x)	1.79	1.57	1.23	1.22	1.32	1.19	
Efficiency (%)	113.4%	88%	88.2%	96%	80%	72%	
ROAA (%)	0.0%	1.5%	1.1%	-0.6%	1.3%	2.4%	
ROAE (%)	0.0%	3.6%	3.8%	-2.8%	5.2%	10.0%	

*Unaudited Accounts

REGULATORY DISCLOSURES				Appendix II		
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 Watch	Rating Action	
	RATING TYPE: ENTITY					
	10/04/2024	A	A-2	Stable	Maintained	
	08/17/2023	A	A-2	Negative	Maintained	
	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.					
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Due Diligence Meetings	S.no	Name	Designation	Date		
	1.	Syed Zain Hussain	CEO	9th September, 2024		
	2.	Syed Waqar Ul Hassan	CFO			
	3.	Iqbal Rasheed	Chief Internal Auditor			