RATING REPORT

Topline Securities Limited

REPORT DATE:
January 18, 2019

RATING ANALYSTS:
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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	*January 18, 2019*		*July 19, 2017*	

COMPANY INFORMATION	
Incorporated in 2001	**External auditors:** M/s Naveed Zafar Ashfaq Jaffery & Co. – Chartered Accountants
Public Unlisted	**Chairman of the Board:** Mr. Mohammad Sohail
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Mohammad Sohail
Mr. Mohammad Sohail – 70.91%	
Mr. Haroon Fatani – 22.3%	
Mr. Amir Fatani – 6.8%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria Methodology – Securities Firms Rating (June 2017) ***http://www.jcrvis.com.pk/Images/Securities%20methodology%201%20-2015.pdf***

Topline Securities Limited

OVERVIEW OF THE INSTITUTION

Topline Securities Limited(TSPL) was incorporated under the Companies Ordinance 1984. The company is a TRE certificate holder of Pakistan Stock Exchange. M/s Naveed Zafar Ashfaq Jaffery & Co., Chartered Accountants audited Topline's Financial Statements for FY18.

Profile of Chairman & CEO

Mr. Muhammad Sohail holds dual position of Chairman and CEO in the company. Mr. Sohail is an entrepreneur possessing vast experience in capital markets including research and equity sales. Mr. Sohail holds an MBA degree and is a certified director from Pakistan Institute of Corporate Governance.

RATING RATIONALE

Key Rating Drivers

Brokerage industry continues to be affected by economic cycles. Declining trend in trading volumes during FY18 and the ongoing year has impacted the topline of brokerage industry

Political uncertainty due to elections, aggressive foreign selling, rising current account deficit and expected slow-down in GDP growth has translated into dismal performance of the benchmark index over the last 18 months. Resultantly, market volumes have posted a noticeable decline during the period. Decline in ready market volumes during FY18 was more pronounced at around 49.1% for ready market as compared to future volumes which remained stagnant. Given the operating environment, players with efficient and variable cost structures focusing on high margin business and diversification in revenue streams are expected to fare better vis-à-vis peers. Players with large proprietary books have also witnessed losses given weak market performance.

Industry Data (Ready+ Future)	Volumes in millions	Value in millions
FY17	100,345	4,756,168
FY18	58,401	2,881,120
Growth in FY18	*-42%*	*-39%*
1HFY19	31,182	1,304,415
Annualized growth in 1HFY19 vis-à-vis FY18	*7%*	*-9%*

Going forward, focus of brokerage companies is expected to remain on cost rationalization, increased portfolio diversification into derivatives and focus on higher margin business. Moreover, given low base effect of ready market volumes & growing volumes in the future segment and improved valuations post two consecutive years of decline in benchmark index, overall market volumes during FY19 are expected to be higher vis-à-vis FY18.

Market share has increased on a timeline basis but remains low given focus on high margin business

TSPL has historically focused on high net worth institutional business and sizeable foreign brokerage business given the higher margins in the segment. This is also reflective in higher commission per share for the Company vis-à-vis industry peers. However, overall market share remains low. While proportion of foreign brokerage income in overall commission has declined, the same continues to represent over half of total brokerage income during FY18. The same represent a risk to revenues in case participation by foreigners does not improve, going forward. Moreover, implementation of MiFID 2 in other geographical locations has resulted in pressure on brokerage commissions internationally and could translate into pressure on commissions. Decline in commissions from local corporates was limited during FY18 vis-à-vis other industry players with most noticeable dip being in commission from individuals. Given the low margins in retail business along with increasing KYC requirements and risk associated with the same, management does not intend to aggressively pursue growth through the same.

Sizeable variable cost structure has resulted in limited increase in cost to income ratio vis-à-vis other industry players. Improved diversification in revenue streams expected given corporate advisory pipeline.

Operating revenue of the company declined by 39% during FY18 and was reported at Rs. 265.3m (FY17: Rs. 435.0m). The sizeable decrease is on account of lower brokerage revenue attributable to weak stock market volumes and decline in commission per share due to reduction in scrip prices. Share of brokerage revenue in total revenue declined to 89% (FY17: 97%) during FY18 while share of advisory services increased to 10% (FY17: 2%).Going forward, JCR-VIS expects improved diversification in revenue stream given improved corporate finance & advisory services pipeline. Moreover, improved liquidity and increase in benchmark rates is expected to translate into healthy growth in treasury income.

Operating efficiency was reported at 69.5% (FY17: 65.2%) during FY18 which has increased on account of higher decline in brokerage revenue; however the same compares favorably to most industry peers. Given variable cost structure model with over two-third of employee related costs being variable in nature, the company posted profit after tax of Rs. 84.0m (FY17: Rs. 180.7m) during FY18. Going forward, improved volumes, higher commission per share and higher corporate finance and treasury income along with lower taxes due to regulatory changes is expected to result in enhanced profitability indicators.

Low credit and market risk given high proportion of IDS in overall volumes and no proprietary book

Credit risk of the company is considered manageable given over four-fifth of the volume of transactions are conducted through Institutional Delivery System (IDS). With respect to foreign institutions, all trades are dealt by custodian banks which have been inducted as Custodian Clearing Members (CCM) of NCCPL. Moreover, ageing of receivables is also considered satisfactory with around 90% of the trade debts outstanding for less than 15 days. Exposure to market risk is limited given no proprietary investments on balance sheet. Credit and market risk on investment portfolio and cash balances in considered manageable given the credit rating of counterparties.

Improved capitalization and liquidity indicators

Equity base of the company increased to Rs. 672.9m (FY17: Rs. 611.3m) at end-FY18 and is mainly attributable to retention of profits.Net capital balance at end-June'2018 was Rs. 568.5m (June'2017: Rs. 496.8m) has increased on a timeline basis and remains well above regulatory requirement. Moreover, lower market volumes has translated into excess availability of cash on balance sheet, liquidity profile of the company witnessed improvement in FY18 with liquid assets comprising 264% (FY17: 172%) of total liabilities and 79% (FY17: 84%) of total assets. Improved liquidity profile is also evident from low utilization of short term borrowings during FY18 as compared to the preceding year. Highest level of gearing during the year was reported at 0.29(x) in Feb'2018.

FINANCIAL SUMMARY (amounts in PKR millions)		Appendix I		
BALANCE SHEET	**30-Jun-15**	**30-Jun-16**	**30-Jun-17**	**30-Jun-18**
Trade Debts	70.4	42.5	24.5	57.6
Long Term Investments	83.1	60.0	41.2	21.4
Cash and Bank balances	54.8	202.7	383.9	407.9
Total Assets	451.2	528.5	1191.5	957.3
Trade and Other Payables	85.4	85.7	447.6	282.6
Long Term Loans	0.0	0.0	0.0	0.0
Short Term Loans - Secured	19.3	0.0	131.4	0.4
Net Worth (excluding revaluation surplus)	272.0	436.2	611.3	672.9
INCOME STATEMENT	**30-Jun-15**	**30-Jun-16**	**30-Jun-17**	**30-Jun-18**
Total Revenue	270.8	345.2	501.7	291.8
Brokerage Income	258.0	297.2	422.2	239.80
Advisory Income	3.8	28.7	6.6	22.75
Operating & Administrative Expenses	150.6	190.5	283.9	196.1
Finance Costs	7.9	2.9	9.6	3.3
Profit Before Tax	124.9	165.9	229.7	118.7
Profit After Tax	87.6	118.8	180.7	84.0
RATIO ANALYSIS	**30-Jun-15**	**30-Jun-16**	**30-Jun-17**	**30-Jun-18**
Liquid Assets to Total Liabilities	223.3%	431.9%	172.2%	264.5%
Liquid Assets to Total Assets	59.0%	71.7%	83.8%	78.5%
Leverage	0.44	0.20	0.96	0.42
Gearing	0.07	0.00	0.22	0.00
Efficiency (%)	56%	55%	65%	69%
ROAA (%)	20%	24%	21%	8%
ROAE (%)	30%	34%	35%	13%

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

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: 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

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

(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.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

Name of Rated Entity	Topline Securities Limited
Sector	Brokerage
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below
Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	JCR-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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
18-Jan-19	A-	A-2	Stable	Reaffirmed
19-July-17	A-	A-2	Stable	Reaffirmed
22-Mar-16	A-	A-2	Stable	Initial