RATING REPORT

Topline Securities Limited

REPORT DATE:
April 12, 2022

RATING ANALYSTS:
Sara Ahmed
sara.ahmed@vis.com.pk

Nisha Ahuja, CFA
nisha.ahuja@vis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A	A-2
Rating Outlook	Stable		Stable	
Rating Date	*April 04, 2022*		*March 19, 2021*	

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

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Securities Firms Rating (July 2020) **http://vis.com.pk/kc-meth.aspx**

Topline Securities Limited

OVERVIEW OF THE INSTITUTION

Topline Securities Limited (TSL) 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 FY20.

Profile of Chairman & CEO

Mr. Muhammad Sohail holds dual position of Chairman and CEO in the company. Mr. Sohail is an entrepreneur possessing approximately 26 years' 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

Topline Securities Limited (TSL) is engaged in the business of stock brokerage, commodity brokerage, underwriting, consultancy, book building, and advisory services. Shareholding of the Company is primarily vested with Mr. Mohammad Sohail, who also serves as the Chief Executive Officer (CEO) of the company. The company provides both online and physical trading services to local and foreign clients.

Key Rating Drivers:

PSX volumes have witnessed a decline in the ongoing fiscal year after a period of sizable jump in volumes and subsequent enhanced profitability profile of the brokerage industry during FY20 and FY21.

PSX volumes rebounded with a year on year growth of 32% in FY20 and a sizable jump of 144% in FY21. This increase in trading volumes was mainly due to uptick in economic activity; where country's GDP grew by 3.94% (in FY21) and further supported by lower interest rate regime. However, lately, PSX volumes have contracted by ~20% during 7MFY22 vis-à-vis same period last year. The onset of monetary tightening regime, rising inflationary pressure and downgrade to MSCI FM composite has led to subdued activity at the local bourse. Hence, volumes are expected to remain dull in the medium term. The latter half of the ongoing fiscal year is expected to be impacted by the high interest rates and rising cost of doing business; surge in major commodity prices, global container issues/shortages resulting in burgeoning freight charges and rising oil prices.

The continuous foreign sell off has partly been the culprit as well. However, considering low foreign ownership now and Pakistan's return to frontier market, the magnitude of outflows should reduce going forward and arrest further dip in the long run along with measures undertaken by SCEP and PSX to enhance the trading activity on PSX. New regulations include SECP's capital market reforms, wherein small sized brokerage houses shall not be allowed custody of customer's assets and simplified account opening process by allowing brokers to complete the whole process online and streamlining KYC and AML compliance regulations. Further, SECP has made a commission slab to a minimum of 3 paisa (or 0.15% of traded value) and maximum of 2.5% of traded value.

PSX Data (Ready + Future)	FY19	FY20	FY21	1HFY21	1HFY22
Volume (In Billions)	55	68	166	74	59
Value (In Billions)	2,354	2,574	6,916	2,931	2,246

Strong institutional client base

Brokerage income from institutional clients continues to constitute approximately two-fourth of the total brokerage income while remaining from domestic retail (about one-third) and foreigner clients. Going forward, the management aims to enhance its retail client base and has already deployed resources for the same by creating a retail desk to capture the untapped market and the demand emanating with the rising trend of family offices as well. In addition, TSL has undertaken substantial upgradation in its technological infrastructure to facilitate online trading and enhance its virtual presence.

Overall client concentration has remained modest, that is, below two-fourth of the revenue size. Number of clients continued to increase with growth in both individual and institutional clientele, however, wholesale broking continue to remain core specialization area for TSL. Foreign institutional business has remained on the lower and is expected to remain subdued going forward.

Growing corporate advisory income to provide support and sustainability to overall revenues.

Company's efforts to diversify the revenue stream while leveraging its institutional client base have bode well for the Company. Corporate income has remained strong at Rs. 84m (FY21: Rs. 52m) at end Dec'21. Despite subdued market activity in HFY22, TSPL posted strong growth in income emanating from consultancy and underwriting activities. This was on account of various right shares, TFC/Sukuk issuance and IPO transactions. The pipeline also looks promising and is expected to significantly contribute in in second HFY22 as well.

Ratings incorporate TSL's sound revenue stream and efficient cost structure

Total revenue of the company increased by 59% in FY21 vis-à-vis FY20 (FY21: Rs. 381.2m; FY20: Rs 240.2m) due to higher investor activity in the market, minimum commission per share and higher corporate income. Resultantly, recurring revenue enhanced notably. In addition, the management employs a variable remuneration structure which aids in controlling cost for the company during lean times, around two-third of the resources are on variable pay structure. Consequently, efficiency ratio (cost to recurring income) depicts an improving trend to 57.5% (FY21: 54.0%; FY20: 63.3.0%) at end Dec'21.

Other income inched up slightly during FY21 and enhanced further in HFY22 supported by profit on bank deposit and income from margin financing. The Company posted higher profit after tax of Rs. 179.6m (FY20: Rs. 132.2m) during FY21 supported by higher brokerage income and revenue from corporate advisory services along with capital gains and continued to sustain profitability growth during HFY22 by recording profit after tax of Rs. 109.5m (HFY21: Rs. 73.9m), contrary to industry peers.

Financial risk indicators remain sound

Liquidity risk

Liquidity profile of the company is considered strong with liquid assets in relation to total liabilities reported at 220.6% (FY21: 241.8%) at end Dec 2021. Liquid assets mainly consist of short-term investments mostly in money market instruments and mutual funds of Rs. 469.3m while remaining (11.8%) is invested in ready future arbitrage. Other liquid assets include cash and bank balances and deposits with NCCPL.

Credit risk

Credit risk of the company is considered manageable given that over two-fourth of the institutional trade volume of transactions 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 less than one-tenth of the trade debts outstanding for above 15 days.

Market risk

The market risk is considered negligible as the TSL's investments are majorly parked in money market mutual funds and instruments while remaining investments are vested in ready future transactions thereby reducing exposure to market risk.

Balance sheet is characterized by low leverage and sound capitalization

Capitalization structure draws support from internal cash generation as total equity of the Company grew to Rs. 1.1b at end-Dec'21 as compared to Rs. 869.4m as at Jun'20. Growth in equity base was manifested on account of profit retention. The management disbursed dividends to the tune of Rs. 50m in FY21 and foresees to maintain dividend payout policy at similar levels.

Net Capital Balance inched down to Rs. 847.6m (FY21: 909.5m; FY20: Rs. 770.9m) at end-Q1'FY21, nevertheless exhibiting considerable cushion over the regulatory requirement. TSL's debt is entirely short-term in nature, quantum of which is low. Gearing and leverage indicators thereby remain low at 0.05x (FY21: 0.00x) and 0.3x (FY21: 0.3x) at end-December 2021. Going forward, capitalization indicators are expected to remain at comfortable levels in lieu of conservative capital structure.

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**H'FY22**
Trade Debts	85.6	227.0	467.1	452.1
Deposits and Prepayments	301.1	97.9	389.9	117.3
Short Term Investments	18.0	277.5	175.8	531.7
Cash and Bank balances	382.7	405.5	253.9	177.7
Total Assets	931.5	1,034.8	1,318.2	1,456.3
Trade and Other Payables	191.0	164.7	308.6	294.8
Long Term Loans	0	0	0	0.0
Short Term Loans	0	0	0	50.6
Total Liabilities	194.3	165.5	319.5	348.1
Paid up Capital	150	150	150	150
Net Worth	737.1	869.4	998.7	1,109.2
INCOME STATEMENT				
Operating Revenue	203.3	240.2	381.2	244.8
Operating Expenses	168.1	170.1	227.3	138.6
Finance Cost	6.3	10.8	6.3	4.9
Profit Before Tax	84.8	164.3	241.7	150.6
Profit After Tax	64.2	132.2	179.6	109.5
RATIO ANALYSIS				
Liquid Assets to Total Liabilities (%)	351.2%	470.1%	250.3%	220.6%
Liquid Assets to Total Assets (%)	73.28%	75.17%	60.66%	52.72%
Current Ratio (x)	4.7	6.1	4.0	3.7
Debt Leverage (x)	0.3	0.2	0.3	0.3
Gearing (x)	-	-	0.0	0.0
Efficiency (%)	75.4%	63.3%	54.0%	57.5%
ROAA (%)	6.8%	13.5%	15.3%	15.8%
ROAE (%)	9.1%	16.5%	19.2%	20.8%

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	Topline 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-Apr-22	A	A-1	Stable	Upgrade
19-Mar-21	A	A-2	Stable	Upgrade
24-Apr-20	A-	A-2	Positive	Maintained
18-Jan-19	A-	A-2	Stable	Reaffirmed
19-July-17	A-	A-2	Stable	Reaffirmed
22-Mar-16	A-	A-2	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	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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.
Due Diligence Meetings Conducted	

S.No	Name	Designation	Date
1.	Mr. Khalid Mehmood	CFO & Company Secretary	March 07, 2022
2.	Mr. M Sohail	CEO	March 07, 2022