

RATING REPORT

Topline Securities Limited

REPORT DATE:
25 November, 2024

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long -term	Short -term	Long -term	Short -term
Entity	A	A1	A	A1
Rating Outlook/Rating Watch	Stable		Stable	
Rating Date	November 25, 2024		July 24, 2023	
Rating Action	Reaffirmed		Reaffirmed	

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

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

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. The Company's registered office is situated at Horizon Tower, Karachi.

Profile of 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. The majority 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.

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 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 smoother transition of government.

Going forward, it is expected that the positive growth momentum will likely continue into FY25, supported by expected earnings growth and the prospect of a new Extended Fund Facility (EFF) with the IMF. 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 share

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

Key Rating Drivers:

Improvement in revenue profile has increased the Company's profitability

Table 2: P&L Statement (Extract)

Figures in PKR' Millions	FY22	FY23	FY24
Operating Revenue	406.6	350.5	548.2
Administrative overheads	239.4	225.2	312.2
Financial charges	8.6	8	11.6
Other operating charges	-	-	-
Total operating expenses	248	233.1	323.8
Operating profit	158.6	117.4	224.4
Other income	65.1	41.2	80.5
Realized	12.5	34.2	-10.2

Unrealized	0.2	2.9	3.6
Profit before tax	236.5	195.7	298.3
Taxation	64.2	45.3	80.2
Profit/(Loss) After Tax	172.3	150.4	218.1
ROAA	12.55%	10.38%	13.24%
ROAE	16.26%	12.84%	16.72%

- Subsequent to a significant dip in revenue in FY23, operating revenue of the Company experienced a healthy growth of ~69% in FY24, led by a strong growth of ~77% in brokerage revenue on the back of an increase in the overall industry volumes.
- Brokerage revenue accounts for a major portion of the revenue mix, representing ~89% of the revenue base, followed by ~9% of the revenue from advisory operations in FY24, which was similar to that of last year.
- Majority of the brokerage revenue emanates from institutional clients, accounting for 64.7% of the brokerage income mix based on a three-year average (FY22 – FY24), with the proportion increasing on a timeline basis. However, the Company has directed its focus on increasing its retail portion. The Company has undertaken measures such as strengthening the retail department along with an additional online trading platform, Vtrade, which is expected to enhance its retail client base, going forward.
- On the advisory front, the Company has mandates including rights issues and listings in pipeline, which is expected to provide support to the Company's revenue base.
- With an increase in the overall revenue, the Company's operational efficiency depicted an improvement, coming down to ~48% in FY24 (FY23: ~66%, FY22: ~56%).
- Consequently, the profitability profile of the Company reflected improvement in FY24.
- Going forward, maintenance of operating efficiency levels, as well as profitability profile, will remain important for the ratings.

Financial risk indicators

Liquidity risk

- TPL's liquid asset comprise of deposits from NCCPL & Pakistan Stock Exchange, Cash & Bank balance and short term investments, amounting to Rs.1,259.5m as at Jun'24 (Jun'23: 940.2m, Jun'22: 818.1m).
- Liquidity profile remained sound as total liquid assets provided 2.88x coverage against its total liabilities as at Jun'24 (Jun'23: 3.8x and Jun'22: 2.7x).
- Additionally, the company's current ratio remains strong at 3.8x (Jun'23: 4.5x, Jun'22: 3.8x) as at Jun'24, despite weakening.

Credit risk

- As at Jun'24, Trade debt of the Company stood at Rs.195.8m (Jun'23: Rs.60.8m, Jun'22: Rs.45.3m) constituting around ~12% of the total current assets.
- Around 44% of the corporate commission is received through institutional delivery system (IDS), thereby providing comfort to the Company's credit risk.

- Ageing of the Company is considered manageable, given that around 88% of the receivables are recovered within 5 days.

Market risk

- The market risk of the Company is considered muted as investments are largely in money market funds.
- Short term investments in relation to equity stood at ~46% as at Jun'24 (Jun'23: ~38%, Jun'22: ~41%).

Sound Capitalization levels

- The Company's equity base has showcased consistent growth in line with its profitability. Equity base of the Company was reported at Rs. 1,388.8m as at Jun'24 (Jun'23: Rs. 1,220.9m, Jun'22: Rs. 1,120.8m).
- The capitalization profile of the Company also draws support from its low-leveraged balance sheet, with no debt on its book. Gearing indicator stood at 0.0x as at Jun'24 (Jun'23: 0.0, Jun'22: 0.08) while leverage indicator was reported to be at 0.32x as at Jun'24 (Jun'23 0.20x, Jun'22 0.27x).

Governance framework is considered sound

- The governance framework of the Company is considered sound. At present, the Company's board consists of seven directors, with two independent directors on the board. Additionally, the Company has five board committees namely audit, HR, risk management, nomination, and investment committee.

Topline Securities Limited

FINANCIAL SUMMARY				
	<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	FY21	FY22	FY23	FY24
Trade Debts	467.2	333.7	140.9	377.4
Deposits and Prepayments	389.9	19.7	42.4	309.4
Short Term Investments	175.8	464.0	466.6	641.7
Cash and Bank balances	253.9	343.4	438.7	327.9
Total Assets	1,318.2	1,427.5	1,468.8	1,826.8
Trade and Other Payables	308.6	208.3	245.3	432.5
Long Term Loans	0	0.0	0.0	0.0
Short Term Loans	10.6	95.0	-	-
Total Liabilities	319.5	307.2	247.9	438.0
Paid up Capital	150	150	150	150
Net Worth	998.7	1,120.8	1,220.9	1,388.8
<u>INCOME STATEMENT</u>	FY21	FY22	FY23	FY24
Operating Revenue	381.2	442.2	350.5	548.2
Operating Expenses	227.3	239.4	225.2	312.2
Finance Cost	6.3	8.6	(8.0)	(11.6)
Profit Before Tax	241.7	236.5	195.7	298.3
Profit After Tax	179.6	172.3	150.4	218.1
<u>RATIO ANALYSIS</u>	FY21	FY22	FY23	FY24
Liquid Assets to Total Liabilities (%)	250.3%	266.4%	379.3%	287.5%
Liquid Assets to Total Assets (%)	60.66%	57.31%	64.01%	68.95%
Current Ratio (x)	4.0	3.8	4.5	3.8
Debt Leverage (x)	0.32	0.27	0.20	0.32
Gearing (x)	0.01	0.08	-	-
Efficiency (%)	53.8%	55.7%	65.7%	48.2%
ROAA (%)	15.3%	12.6%	10.4%	13.2%
ROAE (%)	19.2%	16.3%	12.8%	16.7%

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REGULATORY DISCLOSURES				Appendix II	
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				
	25-Nov-24	A	A1	Stable	Reaffirmed
	24-July-23	A	A1	Stable	Reaffirmed
	12-Apr-22	A	A1	Stable	Upgrade
	19-Mar-21	A	A2	Stable	Upgrade
	24-Apr-20	A-	A2	Positive	Maintained
	18-Jan-19	A-	A2	Stable	Reaffirmed
	19-July-17	A-	A2	Stable	Reaffirmed
22-Mar-16	A-	A2	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.				
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Due Diligence Meetings Conducted	S. No	Name	Designation	Date	
	1.	Mr. Khalid Mehmood	CFO & Company Secretary	30 th Sept, 2024	