

BROKER FIDUCIARY RATING REPORT

Tannu Securities (Private) Limited

REPORT DATE:

11 October, 2023

RATING ANALYSTS:

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RATING DETAILS

Broker Fiduciary Rating	BFR3
Rating Rationale	The rating signifies adequate internal controls and regulatory compliance, adequate ownership and governance, management and client services along with adequate business and financial sustainability
Rating Date	11 October, 2023

COMPANY INFORMATION

Incorporated on April 2012	External auditors: Reanda Haroon Zakaria & Co
Private Limited Company	Chairperson of the Board: Mr. Muhammad Imran Haroon
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Muhammad Imran Haroon
<i>Mr. Muhammad Hanif ~ 67%</i>	
<i>Mr. Javed Khandwala ~ 27%</i>	

APPLICABLE METHODOLOGY

Applicable Rating Criteria: Broker Fiduciary Ratings 2021
<https://docs.vis.com.pk/docs/BrokerFiduciary012021.pdf>

APPLICABLE RATING SCALE(S)

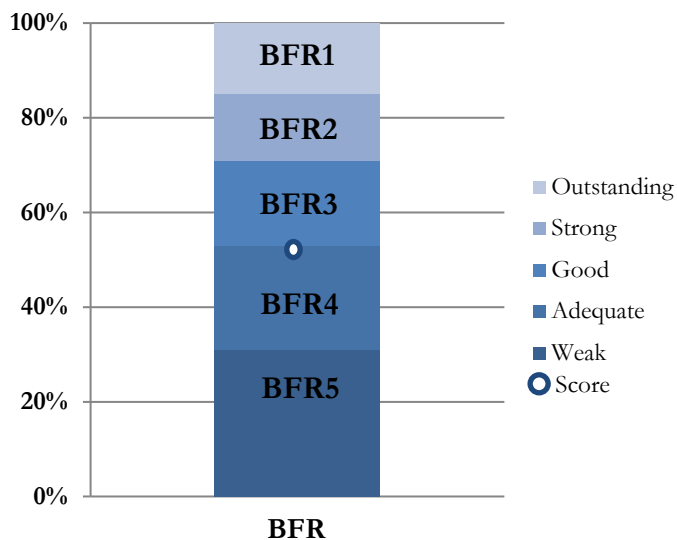
VIS Issue/Issuer Rating Scale:
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Tannu Securities (Private) Limited

CORPORATE PROFILE

Tannu Securities (Private) Limited (TSPL) is engaged in providing brokerage services in stock shares, securities, commercial papers, and debentures. Shareholding of the company is primarily vested with Mr. Muhammad Hanif. The Company operates through its head office which is based in Karachi.

OVERALL GRADING



TSPL is registered with Securities & Exchange Commission of Pakistan and holds Trading Rights Entitlement Certificate (TREC) issued by Pakistan Stock Exchange Limited (PSX). External auditors of the company are Reanda Haroon Zakaria & Co. Auditors are on the approved list of auditors published by the State Bank of Pakistan (SBP)

Business and Financial Sustainability Indicators

	H'FY23*	FY22	FY21
Size of Net Worth (Rs. In Millions)	141.7	152.8	214.7
Gearing x (total interest bearing debt/ total equity)	0.01x	0.06x	0.43x
Leverage x (total liabilities/ total equity)	0.15x	0.21x	0.54x
Liquid Assets/ Total Liabilities (x)	4.64x	4.96x	2.52x
Short term Investments/ Total Equity (%)	68.6%	78.0%	106.2%

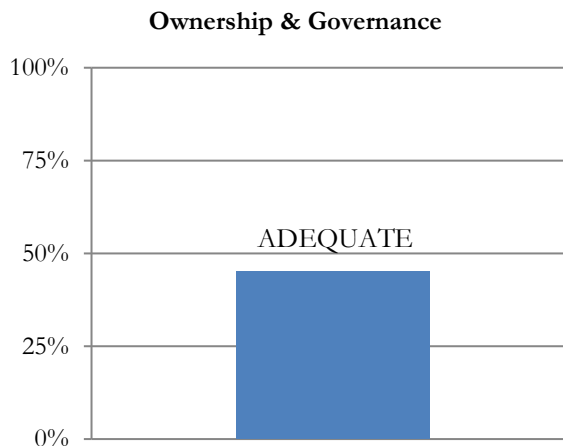
**Unaudited Accounts*

Tannu Securities (Private) Limited

Rating Indicators

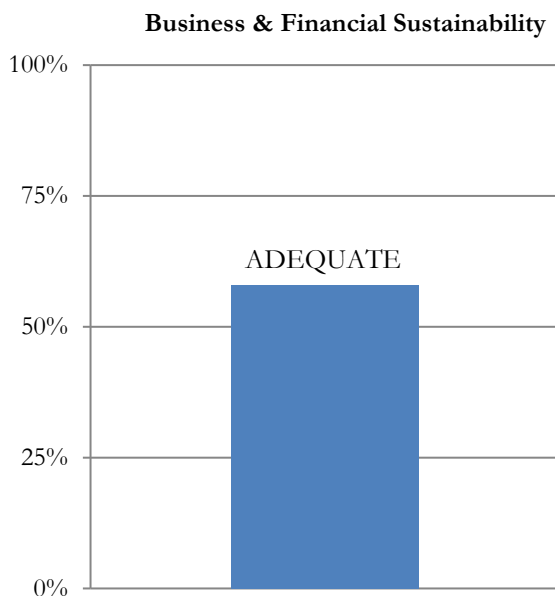
Ownership & Governance

- TSPL is a private limited company comprising of a two member board, inclusive of one independent director. The Company has an audit committee chaired only by the CEO.
- Increasing the board size along with inclusion of independent directors as well as certified members may be considered in order to strengthen the governance framework. Additionally, increasing board members will facilitate in establishing more committees coupled with having more members in the same.
- Disclosure levels of the Company may be enhanced through addition of CEO statement in the financial statement.



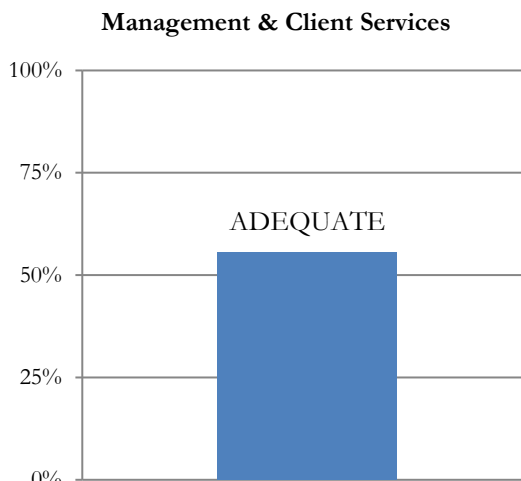
Business & Financial Sustainability

- The Company’s entire operating income stems from the brokerage income, which is constrained by the limited size and scope of its operation. Following posting a profit in FY21, Company’s profitability has taken a toll, registering a loss of Rs.62m in FY22 and subsequently a loss of Rs.11m in H’FY23.
- The Company’s efficiency ratio has increased on a timeline basis. Recurring expenses in relation to recurring income is reported at 114.9% end-H’FY23 (FY22: 129.2%, FY21: 76.5%).
- Company depicts a sound liquidity profile, with liquid assets providing 4.64x coverage to total liabilities at Dec’22 (Jun’22: 4.96x), Jun’21: 2.52x).
- Gearing and leverage indicators are also considered sound. However, the decline in equity base is a constraint to the future growth of the Company. During FY21, equity stood at Rs. 215m which plunged to Rs.141m at end-HFY23.
- The Company maintains a sizeable proprietary book. Market risk depicts a declining trend, albeit remaining on the higher side as quantum of short term investments in relation to equity stood at 69% end-HFY23 (FY22 78%, FY21 106%)
- Going forward, improvement in revenue augmentation, operational efficiency, lowering of market risk, maintenance of gearing and leverage as well as increasing the size of the equity will remain important for rating.



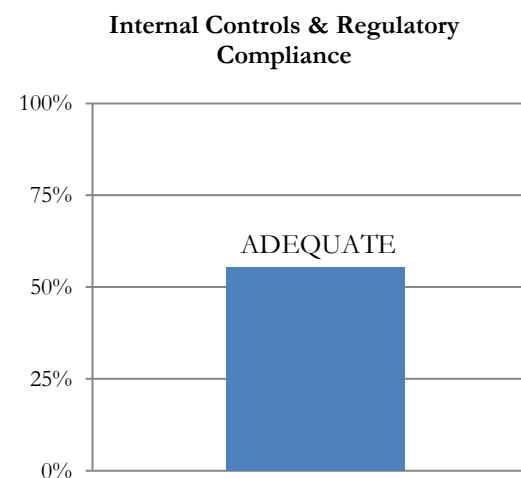
Management & Client Services

- Room for improvement exists in client servicing procedures, revamping the company’s website may be considered to provide prompt assistance to clients.
- Investor grievance procedures may be improved through the availability of complaint filing and tracking resources. Additionally, availability of research reports may bode well for its rating.
- Moreover, undertaking invitations and advertisement may provide further impetus to Company’s client services.
- Company’s organizational structure is restricted to the limited size and scope of its operations. Expanding the same may enable in strengthening the overall organizational structure.
- Disaster recovery practices may be improved by maintaining backups at a third party warehouse.



Internal Controls & Regulatory Compliance

- Company has laid out internal policies, however, further enhancement in the scope of the same may be considered.
- Formulating and documenting separate conflict of interest and IT policy may strengthen overall internal control framework of the Company.
- Establishing an independent risk management department may further strengthen the control framework.
- Segregation of internal audit and compliance department may be considered to provide clarity in reporting lines along with transparency in the audit and compliance review.



Broker Fiduciary Rating Explained

In Securities Broker Fiduciary Rating (SBF), the strength of fiduciary role of the securities brokers is captured through the relative financial strength of the securities broker firm and its sponsors along with depth of internal control and governance framework, which are key rating ingredients. Responsiveness of the risk and internal control structure, quality of HR and soundness of the business infrastructure determine the strength of management and level of service quality of a stock broker. VIS Credit Rating Co. Ltd. (VIS) has developed a rating system that evaluates brokerage firms on the basis of such practices and the systems instituted to safeguard investor interests are at the forefront.

Tannu Securities (Private) Limited

REGULATORY DISCLOSURES		Appendix I		
Name of Rated Entity	Tannu Securities (Private) Limited			
Sector	Brokerage			
Type of Relationship	Solicited			
Purpose of Rating	Broker Fiduciary Rating (BFR)			
Rating History	Rating Date	Rating	Rating Outlook	Rating Action
	RATING TYPE: BFR			
	11-October-23	BFR3	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	N/A			
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