



The Pakistan Credit Rating Agency Limited

Rating Report

Trust Securities & Brokerage Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
20-Sep-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Trust Securities and Brokerage Limited (“TSBL” or the “Company”) mainly provides the services of equity brokerage while commodity brokerage also adds to the topline. Subsequent to the takeover by the incumbent sponsors, the brokerage revenue has shown a decent improvement YoY. The Company earned brokerage revenue of ~PKR 304mln in FY21, parallel with the surge in market volumes while the investment in human resources also played its part. The revenue saw a dip in FY22, showing a reduction of ~32% to stand at ~PKR 144mln for 9MFY22 (SPLY: ~PKR 212mln), due to lackluster volumetric activity in FY22. However, future sales strategy to enhance institutional/corporate penetration along with materialization of commodity brokerage plans may support the topline. Furthermore, the Company is geographically diverse with branches in Lahore and Karachi, and has plans to further diversify their geographical presence, improving client outreach. The bottom line suffered a loss of ~PKR 14mln for 9MFY22 (SPLY: ~PKR 57mln) which is also attributable to the loss incurred on the sale of short-term investments amounting to ~PKR 13mln. The Company has an adequate equity base of ~PKR 289mln at end-Mar’22 while further injection would support the overall financial profile. The Company is managing its own proprietary book having a value of ~PKR 39mln at end-Mar’22 resulting in a manageable market risk exposure. The management has plans to increase the proprietary book size in the future which may elevate the market risk if the equity base is not enhanced with further capital injection. With a market share of ~2.5%, the Company mainly deals with HNWT’s; however, plans are in place to tap institutional clientele. Being a listed Company, the ownership is divested among different individuals and entities. The ratings are supported by virtue of the Company being one of the few listed brokerage houses, and complying with Corporate Governance stipulations. A low leveraged capital structure and adequate liquidity buffers continue to provide support to the overall financial risk profile.

Going forward, further equity injection, sustainability and enhancement of market share, improvement in profitability through augmentation and diversification of revenues, and cost control is important. Retention of controlling stake, key management personnel, improvement in customer service tools, and maintaining strong controls will remain vital.

Disclosure

Name of Rated Entity	Trust Securities & Brokerage Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Broker Entity Rating(Jun-22)
Related Research	Sector Study Brokerage & Securities(Jan-22)
Rating Analysts	Afnan Iqbal afnan.iqbal@pacra.com +92-42-35869504



Profile

Background Trust Securities and Brokerage Limited ("TSBL" or "The Company") was incorporated on October 19, 1993 as a Public Limited Company. The Company is a Trading Right Entitlement Certificate holder of the Pakistan Stock Exchange Limited and a member of Pakistan Mercantile Exchange Limited. The Company is one of the few brokerage houses listed on Pakistan Stock Exchange.

Operations The Company primarily provides the services of equity brokerage; however, the commodity brokerage segment also supports the topline. The Company operates through its head office in Karachi and also has a presence in Lahore.

Ownership

Ownership Structure The major shareholding of the Company is held by Mr. Junaid Shehzad Ahmed (26.93%) and Mr. Muhammad Khurram Faraz (16.3%), while Foresight Investments (Pakistan) (Pvt.) Limited, MG Media (Pvt.) Limited and Paramount Commodities (Pvt.) Limited hold 9.2%, 8.7% and 5.9% ownership respectively. The rest is owned by other individuals and entities.

Stability The Sustainability of the controlling stakes is important for ownership stability. The presence of a documented succession plan and shareholding agreement would be positive.

Business Acumen The primary sponsor, Mr. Junaid Shehzad Ahmed, has a vast portfolio of businesses such as an agriculture-focused company with wheat exports, a logistics company, and real-estate and education sector investments, while also being involved in a real-estate business abroad.

Financial Strength The primary sponsors have good financial strength on the back of their businesses both here in the country as well as abroad, and are open to further equity injection if required.

Governance

Board Structure The Company's Board of Directors (BoD) comprises of seven members, which include two independent directors, three non-executive directors and two executive directors. The board is currently chaired by Mrs. Zenobia Wasif, a non-executive director.

Members' Profile All of the directors are qualified and experienced professionals and possess manifold experience.

Board Effectiveness The Company has two committees at the Board level – Audit Committee and the HR & Remuneration Committee. Both committees are chaired by independent directors, indicating a strong governance framework.

Transparency Reanda Haroon Zakaria & Company Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the financial statements for FY21. The firm is in the 'B' Category of SBP's panel of auditors.

Management

Organizational Structure The Company has a functional organizational structure. Key departments of the Company include: (i) Online Retail Brokerage, (ii) Institutional Brokerage, (iii) Risk Management (iv) Sales & Marketing, (v) Economic Research, (vi) Compliance, (vii) Customer Support, and (viii) Internal Audit. All department heads report to the CEO, while the Internal Audit department reports to the Board Audit Committee.

Management Team The Management Team is headed by Mr. Abdul Basit, the CEO of the Company. He has been with the Company for the last 27 years and holds a BSc degree from the University of the Punjab. Mr. Muhammad Ahmad is the CFO of the Company with over 20 years of relevant experience and is a C.A. finalist while also having a Master's degree. Mr. Fahad Muhammad Ali is the Head of Equities and has held leadership positions in the top brokerage houses in Pakistan over his 15 years career.

Management Effectiveness To streamline operations, four committees exist at the senior management level, (i) Management Committee, (ii) Investment Decision Making Committee, (iii) IT Steering Committee, and (iv) Risk Management Committee.

Control Environment Trust Securities and Brokerage Limited has both front-end and back-end systems from SECP approved vendor – 'Vision Max'. The systems are fully integrated and provide real-time support for the Compliance department and the Risk Management department to ensure all margin calls are adhered to. The Operations Manager of the Company also monitors transactions in real-time and provides oversight and support to the Risk Management department.

Business Risk

Industry Dynamics Pakistan's economy has been volatile so far during FY23, with the sustained high inflation and political instability getting further compounded by the devastating floods that have ravaged both the North and South of the country. The revival of the IMF program and receiving the tranche of \$1.16bln is a positive indication; however, the pressure on the domestic economy remains high due to implementation of further taxes and levies to continue to adhere to the IMF conditions. Going forward, the market may adopt a 'wait and see' approach for some time before volumes surge again as activity rebounds once the post-flood rebuilding starts.

Relative Position The Company has a sustained position in the market, with a market share ranging from 2.5% to 3% in terms of volume.

Revenues TSBL's operating revenue is mainly concentrated to equity while commodities brokerage provides support to the topline. During 9MFY22, brokerage commission stood at ~PKR 157mln (SPLY: ~PKR 221mln). The addition of diversified revenue streams may bode well for the Company moving forward.

Cost Structure The Company's cost structure is mainly concentrated to operating expenses as well as financial charges. TSBL has been in the process of expanding their human resource strength which is why a trend of increasing operating expenses can be seen in the recent years. The operating expenses were ~PKR 169mln for 9MFY22, comprising ~107% of revenue; whereas, the operating expenses amounted to ~PKR 263mln for FY21, constituting ~85% of revenue. TSBL reported net loss of ~PKR 14mln in 9MFY22 compared to a net profit of ~PKR 57mln in SPLY. The decrease in revenue and subsequent reduction in profitability is mainly due to decrease in market volumes during FY22.

Sustainability The management is considering to diversify its presence in central Punjab to capture the untapped market. The research department is also under expansion, as currently only macro-economic research is done. TSBL also has recently shifted their focus towards building up their online presence through social media marketing and holding online corporate briefing sessions.

Financial Risk

Credit Risk As per the Company's Risk Management Policy, the Risk Management department is responsible for daily monitoring of margin requirements. Any possible breach is immediately highlighted by their Risk Management System and adequate measures as per scenario are then undertaken to effectively manage their credit risk.

Market Risk The Company has an active Investment Committee (IC) in place to monitor and mitigate market risk. A proper proprietary policy is not in place; however, internal SOPs have been defined through which the IC decides on its investment strategies.

Liquidity Risk The current liabilities of the Company stood at ~PKR 187mln at end-Mar'22, decreased from ~PKR 299mln at end-Jun'21 (FY20: ~PKR 93mln). The current liabilities are adequately covered by current assets of ~PKR 421mln at end-Mar'22, while they stood at ~PKR 552mln at end-Jun'21 (FY20: ~PKR 261mln).

Capital Structure TSBL has an adequate capitalization level with regulatory Net Capital Balance (NCB) standing at ~PKR 198mln at end-Mar'22 (FY21: ~PKR 245mln), while Liquid Capital Balance (LCB) stood at ~PKR 200mln at end-Mar'22 (FY21: ~PKR 212mln). The Company's equity was ~PKR 289mln at end-Mar'22, decreased from ~PKR 303mln at end-Jun'21 due to ~PKR 14mln loss in 9MFY22.



PKR mln

Trust Securities and Brokerage Limited
Private Limited

Mar-22	Jun-21	Jun-20	Jun-19
9M	12M	12M	12M

A BALANCE SHEET

1 Finances	55	95	50	25
2 Investments	52	33	12	5
3 Other Earning Assets	154	286	104	56
4 Non-Earning Assets	226	199	132	157
5 Non-Performing Finances-net	-	-	-	-
Total Assets	487	613	298	243
6 Funding	36	48	-	-
7 Other Liabilities (Non-Interest Bearing)	161	262	93	73
Total Liabilities	197	310	93	73
Equity	289	303	205	170

B INCOME STATEMENT

1 Fee Based Income	160	332	110	41
2 Operating Expenses	(171)	(263)	(109)	(70)
3 Non Fee Based Income	9	42	30	8
Total Operating Income/(Loss)	(2)	111	31	(22)
4 Financial Charges	(4)	(5)	(1)	(1)
Pre-Tax Profit	(7)	107	30	(23)
5 Taxes	(7)	(19)	5	(1)
Profit After Tax	(14)	88	35	(23)

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)

Return on Equity (ROE)

-183.2%	4.2%	2.7%	-5.4%
-5.9%	44.0%	23.8%	-17.1%

2 Capital Adequacy

Equity / Total Assets (D+E+F)

Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)

59.5%	49.4%	68.9%	70.1%
-235.9%	1607.7%	1304.9%	-2585.4%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)

Liquid Assets / Trade Related Liabilities

43.3%	28.7%	32.6%	49.9%
229.3%	115.0%	153.3%	208.6%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers

Equity Instruments / Investments

144.3%	39.4%	84.3%	58.1%
100.0%	100.0%	100.0%	100.0%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
--	---

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent