



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
19-Sep-2023	A-	A2	Stable	Maintain	-
20-Sep-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Trust Securities & Brokerage Limited's ("TSBL" or "the Company") core product portfolio centers around equity brokerage services, while its renown in the commodity brokerage space has improved significantly over the recent years. TSBL enjoys an adequate market share of ~2% whereas the clientele is diversified between corporate/Institutional and Retail/HNWIs. Challenging economic conditions in Pakistan, including political uncertainty, high inflation, and volatile interest rates, have negatively affected the brokerage industry and investors' sentiments, particularly in FY23, leading to a decrease in market activity level and profitability. During 9MFY23 TSBL's revenue declined by 29% to ~PKR 121mln (SPLY: ~PKR 171mln). However, the Company reported a PAT of ~PKR 22mln when compared to the net loss (~PKR 14mln) during SPLY. This improvement can be attributed primarily to a prudent control of operating expenses as well as an increase in other income. The Company has a low-leveraged capital structure. The Company has an adequate equity base of ~PKR 312mln at end-Mar'23 (SPLY: ~PKR 289mln). The market risk is minimal due to the Company's limited investment in equity securities amounting to ~PKR 27mln. The financial performance has shown a decent Y-o-Y improvement after the takeover by the incumbent sponsors. The new ownership has been effective in driving growth in the brokerage business. Additionally, TSBL has a well-developed organizational structure that ensures efficient operations, clear lines of responsibility, and effective communication within the Company. A well-structured company is better positioned to adapt to changes in the market and maintain its competitive edge. The Company has a strong governance framework supported by the presence of independent directors and board-level committees. The management is seasoned, and the control framework is deemed satisfactory, primarily attributed to the presence of a dedicated risk management department within the Company. Moreover, TSBL has opted to outsource its internal audit department, which bodes well for the Company's control framework. The ratings draw comfort from the improvement to Category 'A' of the external auditors of the Company. As a part of long-term strategic plans, TSBL will be leveraging its growing market share in PMEX to aid the Company's topline going forward. The improvement of the technological platform and geographical diversification is also under consideration.

Going forward, the company will focus on revenue diversification, geographical expansion, and enhancement of PSX and PMEX market share. Simultaneously, it is imperative to uphold robust internal controls, retention of key management personnel, and diligently monitor risks.

Disclosure

Name of Rated Entity	Trust Securities & Brokerage Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Broker Entity Rating(Aug-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Brokerage & Securities(Jan-23)
Rating Analysts	Hassaan Ahmad Hassaan.Ahmad@pacra.com +92-42-35869504



Profile

Background On the 19th of October 1993, the Company was established as a Public Limited Company. It is enlisted on the Pakistan Stock Exchange Limited and holds the status of a Trading Right Entitlement Certificate holder and a member of Pakistan Mercantile Exchange Limited.

Operations The Company's Head Office is situated in Karachi and currently has 4 branches dedicated to equity brokerage, with 2 of them situated in Lahore. Additionally, there are 2 more branches focused on Commodities Brokerage located in Karachi. The Company's core product portfolio centers around equity brokerage services, with an additional presence in commodity brokerage. TSBL is categorized as "Trading and Self-Clearing".

Ownership

Ownership Structure The major shareholding of the Company is held by Mr. Junaid Shehzad Ahmed (26.93%) and Mr. Muhammad Khurram Faraz (16.03%), while Mr. Muhammad Shayan Ghayas, Foresight Investments (Pakistan) (Pvt.) Limited and Paramount Commodities (Pvt.) Limited holds 5.8%, 9.2% and 8.7% ownership respectively. The rest is owned by other individuals and entities while free float shareholding is currently at 33%.

Stability Although a written shareholding agreement or a documented succession plan is absent, the Company operates based on verbal agreements. Currently, The current Mr. Abdul Basit serves as the CEO of TSBL and is anticipated to remain at the helm of the Company for the foreseeable future, with a verbal succession plan in place.

Business Acumen The primary sponsor, Mr. Junaid Shehzad Ahmed, has a vast portfolio of businesses such as an agriculture-focused company with wheat exports, and real estate investments while also being involved in a real-estate business abroad. His diverse expertise gives the Company access to key business insights.

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 The directors provide keen oversight through their years of diverse and professional experience. The Board's Chairman, Mrs. Zenobia Wasif, has a bachelor's degree and has a diverse experience of close to 20 years. WG CMR. Talat Mehmood is an independent director who served the Pakistan Air Force for a few decades, retiring in Aug, 2017. He holds a BSc (Hons) degree from Air University. Mr. Khizer Hayat Farooq serves as an independent director and is a graduate from Staffordshire University, U.K. He has over 7 years of experience of the financial markets.

Board Effectiveness Two board meetings were held during FY23. All directors attended the meetings. The quality of discussion as captured in meeting minutes reflects high involvement of the board members in business activities. This bodes well for the sustainability of the company.

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 FY22. The firm is in the B Category of SBP's panel of auditors.

Management

Organizational Structure The Company has a well-developed 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.

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 The brokerage industry faced significant challenges during FY23 due to elevated political uncertainty and soaring inflation, which adversely impacted the country's economic landscape. As a result, market activities were subdued, with investors favoring the security of fixed returns from the higher interest rates prevalent in the economy. However, as FY24 commenced, there emerged a recovery in investor confidence. This can be attributed to the resumption of the IMF program and recent government initiatives aimed at tackling persistent economic issues, including addressing circular debt. Despite these positive trends, the political situation in the country remains unstable, leading many investors to adopt a cautious stance until the conclusion of the elections.

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 primary source of operating revenue is concentrated to equity and commodities brokerage. Operating revenue comprises only of Commission Income. During 9MFY23, the total brokerage commission stood at ~PKR 112mln (SPY: ~PKR 157mln). Notably, out of this, ~PKR 85mln corresponds to income from equity brokerage while ~PKR 26mln originates from commodity brokerage. The decrease in revenue and subsequent reduction in profitability is mainly due to a decrease in market volumes during FY23. However, it's worth considering that diversification of revenue streams could potentially yield favorable outcomes for the company's trajectory moving forward.

Cost Structure The administrative expenses declined in 9MFY23 and stood at ~PKR 141mln as compared to ~PKR 215mln in FY22. TSBL reported a net profit of ~PKR 22mln in 9MFY23 compared to a net loss of ~PKR 14mln in SPY.

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 effectively manage market risk.

Liquidity Risk The current liabilities of the Company stood at ~PKR 185mln at end- Mar'23, decreased from ~PKR 221mln at end-Jun'22 (FY21: ~PKR 299mln). The current liabilities are adequately covered by current assets of ~PKR 443mln at end- Mar'23, while they stood at ~PKR 461mln at end-Jun'22 (FY21: ~PKR 552mln).

Capital Structure TSBL has an adequate capitalization level with regulatory Net Capital Balance (NCB) standing at ~PKR 228mln at end-Mar'23, while Liquid Capital Balance (LCB) stood at ~PKR 232mln at end-Mar'23. The Company's equity stood at ~PKR 317mln at end-Mar'23, depicting an increase of ~10% as compared to FY22.



PKR mln

Trust Securities and Brokerage Limited
Listed Public Limited

Mar-23	Jun-22	Jun-21	Jun-20
9M	12M	12M	12M

A BALANCE SHEET

1 Finances	63	58	95	50
2 Investments	27	45	33	12
3 Other Earning Assets	136	179	286	104
4 Non-Earning Assets	276	237	199	132
5 Non-Performing Finances-net	-	-	-	-
Total Assets	503	520	613	298
6 Funding	24	59	48	-
7 Other Liabilities (Non-Interest Bearing)	168	171	262	93
Total Liabilities	192	230	310	93
Equity	312	289	303	205

B INCOME STATEMENT

1 Fee Based Income	124	210	332	110
2 Operating Expenses	(150)	(222)	(263)	(109)
3 Non Fee Based Income	53	4	42	30
Total Operating Income/(Loss)	27	(8)	111	31
4 Financial Charges	(5)	(6)	(5)	(1)
Pre-Tax Profit	22	(14)	107	30
5 Taxes	(0)	0	(19)	5
Profit After Tax	22	(14)	88	35

C RATIO ANALYSIS

1 Cost Structure

Financial Charges / Total Operating Income/(Loss)	18.2%	-79.2%	4.2%	2.7%
Return on Equity (ROE)	13.4%	-4.4%	44.0%	23.8%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	61.9%	55.7%	49.4%	68.9%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long	-278.9%	-343.1%	1607.7%	1304.9%

3 Liquidity

Liquid Assets / Total Assets (D+E+F)	49.2%	40.8%	28.7%	32.6%
Liquid Assets / Trade Related Liabilities	270.6%	293.0%	115.0%	153.3%

4 Credit & Market Risk

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to C	201.2%	144.5%	39.4%	84.3%
Equity Instruments / Investments	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+	
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-	
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):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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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)

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