



The Pakistan Credit Rating Agency Limited

Rating Report

Trust Securities & Brokerage Limited BFR	Report Contents
	<ol style="list-style-type: none"> 1. Rating Analysis 2. Financial Information 3. Rating Scale 4. Regulatory and Supplementary Disclosure

Rating History				
Dissemination Date	Rating	Outlook	Action	Rating Watch
20-Sep-2022	BFR 2	Stable	Initial	-

Rating Rationale	Factor	Comment
	Ownership	The Company's ownership is diversified among different individuals and entities, while major stakes are owned by the primary sponsor Mr. Junaid Shehzad Ahmed reflecting adequate ownership structure.
	Governance	The governance framework is considered strong, supported by a board of seven members including two independent directors.
	Management and Client Services	A qualified and experienced management sits at the helm of the Company and has steered TSBL to their reputable position today. The client services are considered adequate.
	Internal Controls and Regulatory Compliance	Separation of risk management and compliance functions along with an outsourced internal audit function signifies a strong control framework.
	Business Sustainability	The topline has reflected a robust growth YoY since the reorganization in 2017. The revenue is primarily driven from equity brokerage; however, the commodity segment also supports the topline.
	Financial Sustainability	A low leveraged capital structure and adequate liquidity buffers continue to provide support to the overall financial risk profile.

Key Rating Drivers

Trust Securities and Brokerage Limited ("TSBL" or the "Company") mainly caters to HNWI's with a market share of ~2.5%. The management has plans in place to capture institutional clientele as well for which resources have been hired. 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; however, the growth did not sustain in FY22 due to lackluster volumetric activity. The Company has an adequate equity base of ~PKR 289mln at end-Mar'22 while further injection would support the overall financial profile. The clients have been provided with the facility of online trading, mobile app, and macroeconomic research. The formation of a proper research department may further enhance the client experience. The ratings are supported by a strong governance framework, seasoned management team, and sound internal controls while the appointment of category 'A' auditor would further strengthen the control environment.

Disclosure	
Name of Rated Entity	Trust Securities & Brokerage Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology Broker Fiduciary Rating(Jan-22)
Related Research	Sector Study Brokerage & Securities(Jan-22)
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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 and Client Services

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.

Client Servicing: TSBL has adequate client services in place, such as a mobile application, a web-based online trading platform and macro-economic insights available for their clients. Development of a research department is encouraged.

Complaint Management: TSBL has documented a formal 'Customer Care Policy', wherein the Company has detailed their complaint management system. The Operations

Internal Controls and Regulatory Compliance

Manager is initially sent all the complaints, and he then forwards it to the relevant department head and starts the investigation and resolution process.

Extent of Automation / Integration: TSBL 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.

Continuity of Operations: To ensure operational efficiency, the Company has in place on-site, off-site and cloud-based backup facilities. The Off-Site server is placed at the branch office, in a different location to the main server. Furthermore, the Company takes a back-up of all data once a week and stores the data in HDDs in a separate location.

Risk Management Framework: TSBL has established a Risk Management Committee for reviewing risk appetite, policies and controls put in place. TSBL has also outsourced its internal audit function which is instrumental in mitigating risk arising from operational failures.

Regulatory Compliance: TSBL’s compliance department ensures that it is compliant with all the PSX requirements and SECP Regulations that pertain to its particular industry, as well as professional standards, accepted business practices, and internal standards.

Business Sustainability

Operating Environment: 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.

Performance: 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. During 9MFY22, brokerage commission stood at ~PKR 157mln (SPLY: ~PKR 221mln). TSBL reported a 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 a decrease in market volumes during FY22.

Strategy: 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.

Financial Sustainability

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).

Capitalization: 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 & Brokerage Limited	Mar-22	Jun-21	Jun-20	Jun-19
	9M	12M	12M	12M

A BALANCE SHEET

1 Finances	55	95	50	20
2 Investments	52	33	12	5
3 Other Earning Assets	116	267	102	61
4 Non-Earning Assets	264	218	135	157
5 Non-Performing Finances-net	-	-	-	-
Total Assets	487	613	298	243
6 Funding	36	48	-	58
7 Other Liabilities (Non-Interest Bearing)	161	262	93	15
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 Business Sustainability**

Pre Tax Margin	-4.3%	32.1%	27.4%	-56.1%
EBITDA/ Revenue	3.0%	35.7%	33.1%	-49.7%
Profit / (Loss) Before Interest & Taxes / Total Assets	-0.5%	18.1%	10.4%	-8.9%

2 Financial Sustainability

Total Investments / Equity	17.9%	11.0%	5.6%	2.9%
NCB / Equity	68.5%	80.9%	78.1%	82.4%
LCB/ Total Equity	69.3%	72.7%	67.7%	67.1%
(Cash & Cash Equivalents + Government Securities) / Total Assets	72.9%	74.4%	68.3%	76.5%
Total Debt / Equity	12.5%	15.9%	0.0%	0.0%

Broker Fiduciary Rating Scale & Definitions

An independent opinion on the quality of management and client services and sustainability of operations

Scale	Definition
BFR 1	Very Strong. Very Strong quality of management, client services and very high likelihood of sustaining operations.
BFR 2++ BFR 2+ BFR 2	Strong. Strong quality of management, client services and high likelihood of sustaining operations.
BFR 3++ BFR 3+ BFR 3	Good. Good quality of management, client services and above average likelihood of sustaining operations.
BFR 4++ BFR 4+ BFR 4	Adequate. Adequate quality of management, client services and average likelihood of sustaining operations.
BFR 5	Weak. Weak quality of management, client services and weak likelihood of sustaining operations.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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.

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(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

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- 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

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- (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).
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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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