



The Pakistan Credit Rating Agency Limited

Rating Report

Trust Securities & Brokerage Limited | BFR

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Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
19-Sep-2024	BFR 2	Stable	Maintain	-
19-Sep-2023	BFR 2	Stable	Maintain	-
20-Sep-2022	BFR 2	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	The assigned rating incorporates the business acumen of the primary sponsor. The Company's ownership is diversified among different individuals and entities, while major stakes are owned by the primary sponsor Mr. Junaid Shehzad Ahmed.
Governance	The governance framework is considered strong, supported by a board of seven members including two independent directors. Presence of Board level committees chaired by independent directors enhances oversight.
Management and Client Services	A qualified and experienced management is at the helm of the Company and has steered TSBL to its reputable position today. The client services are considered adequate with an online trading platform and research reports available.
Internal Controls and Regulatory Compliance	TSBL has separate internal audit and risk departments, which strengthens the internal control framework.
Business Sustainability	During 9MFY24, TSBL experienced an increase from ~PKR 121mln in SPLY to ~PKR 164mln in brokerage revenue. The Company reported a PAT of ~PKR 84mln for 9MFY24, a notable improvement from the net profit of ~PKR 22mln incurred during the SPLY. This improvement can primarily be attributed to experienced gain on sale of short term investments and an increase in brokerage income due to higher market volumes.
Financial Sustainability	The Company has an adequate equity base of ~PKR 363mln at end-Mar'24 (SPLY: ~PKR 312mln). The market risk is minimal due to the Company's limited investment in equity securities amounting to ~PKR 20mln.

Key Rating Drivers

As a part of long-term strategic plans, TSBL will utilize its growing market renown in commodities brokerage to further support its topline. 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 the sustainability and enhancement of its market share. Meanwhile, it is imperative to maintain rigorous internal controls, retain key management personnel, and maintain profitability.

Disclosure

Name of Rated Entity	Trust Securities & Brokerage Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Assessment Framework Broker Fiduciary Rating(Jan-24)
Related Research	Sector Study Brokerage & Securities(Jan-24)
Rating Analysts	Hassan Ahmad Hassan.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 Three board meetings were held during 9MFY24. 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.

Financial Reanda Haroon Zakaria & Company Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the financial statements for FY23. The firm is in the A Category of SBP's panel of auditors.

Management And Client Services

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.

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.

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

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.

Internal Controls And Regulatory Compliance

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 (Anti Money Laundering and Countering Financing of Terrorism) Regulations that pertain to its particular industry, as well as professional standards, accepted business practices, and internal standards.

Business Sustainability

Operating Environment Since Oct'23, the KSE-100 Index has constantly breached historic highs, breaking the 80k barrier for the first time during FY24. Improving macro-economic indicators resulted in renewed local and foreign interest. Moreover, the market is still trading at an attractive forward P/E ratio, leading analysts to assume further growth in FY25. Moving forward, political and economic stability remains important for the stock exchange, whereas the new financing agreement with the IMF shall play a key role in determining investors interests.

Performance TSBL's primary source of operating revenue is concentrated to equity and commodities brokerage. Operating revenue comprises brokerage income from PSX., PMEX. During 9MFY24. The increase in revenue is mainly due to better market volumes during FY24. However, it's worth considering that diversification of revenue streams could potentially yield favorable outcomes for the company's trajectory moving forward. The administrative expenses declined in 9MFY24 and stood at ~PKR 171mln as compared to ~PKR 140mln in 9MFY24. TSBL reported a net profit of ~PKR 84mln in 9MFY24 compared to a net profit of ~PKR 22mln in SPLY.

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. TSBL also has recently shifted their focus towards building up their online presence through social media marketing and holding online corporate briefing sessions.

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, and it is recommended to the Company to form a policy to govern proprietary trading for more effective market risk management.

Liquidity Risk The current liabilities of the Company stood at ~PKR 311mln at end- Mar'24, increased from ~PKR 208mln at end-Jun'23 (FY22: ~PKR 221mln). The current liabilities are adequately covered by current assets of ~PKR 624mln at end- Mar'24, while they stood at ~PKR 436mln at end-Jun'23 (FY22: ~PKR 461mln).

Capitalization TSBL has an adequate capitalization level with regulatory Liquid Capital Balance (LCB) stood at ~PKR 245mln at end-Mar'24. The Company's equity stood at ~PKR 363mln at end-Mar'24, depicting an increase of ~25% as compared to FY23.

THE PAKISTAN CREDIT RATING AGENCY

Trust Securities & Brokerage Limited
PUBLIC LISTED LIMITED
FINANCIAL SUMMARY

FS PRINT MODE DISABLED

Mar-24 FY24 9M Management	Jun-23 FY23 12M Audited	Jun-22 FY22 12M Audited	Jun-21 FY21 12M Audited
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BALANCE SHEET

1 FINANCES	91.14	36.90	42.90	78.10
2 INVESTMENTS	20.04	20.70	45.50	33.30
3 OTHER EARNING ASSETS	-	0.40	0.49	0.20
4 NON-EARNING ASSETS	570.04	436.20	430.50	502.00
5 NON-PERFORMING FINANCES-net	(33.69)	-	-	-
TOTAL ASSETS	681.22	494.20	519.39	613.60
6 FUNDING	62.53	64.60	66.50	54.40
7 OTHER LIABILITIES (NON-INTEREST BEARING)	255.20	150.40	163.70	255.90
TOTAL LIABILITIES	317.74	215.00	230.20	310.30
TOTAL EQUITY	363.48	279.20	289.50	303.10

INCOME STATEMENT

INCOME

1 FEE BASED INCOME	203.62	142.39	210.60	332.40
2 OPERATING EXPENSES	(171.30)	(83.10)	(78.20)	(57.60)
3 NON-FEE BASED INCOME	81.56	46.11	3.20	42.00
TOTAL OPERATING INCOME (LOSS)	113.88	105.40	135.60	316.80
4 FINANCIAL CHARGES	(9.06)	(115.40)	(150.10)	(209.90)
PRE-TAX PROFIT	93.74	(10.00)	(13.60)	106.40
5 TAXES	(9.40)	(0.20)	0.10	(18.50)
PROFIT AFTER TAX	84.34	(10.20)	(13.50)	87.90

RATIOS

BUSINESS SUSTAINABILITY

1 PRE-TAX MARGIN	0.57	(0.07)	(0.06)	0.32
2 EBITDA MARGIN	0.63	0.83	0.70	0.98
3 EBIT RETURN ON ASSETS	0.23	0.21	0.24	0.69

FINANCIAL SUSTAINABILITY

1 TOTAL INVESTMENTS / EQUITY	0.06	0.07	0.16	0.11
2 LIQUID CAPITAL BALANCE (LCB) / EQUITY	0.45	0.59	0.69	0.73
3 (CASH, CASH EQUIVALENTS & GOVERNMENT SECURITIES) / TOTAL ASSETS	0.04	0.05	0.07	0.04
4 TOTAL DEBT / TOTAL ASSETS	0.10	0.13	0.13	0.09

Broker Fiduciary Rating Scale & Definitions

An independent opinion on a broker's quality of management and client services, and sustainability of operations

Scale	Definition
BFR 1	Very Strong. Very Strong quality of management and client services, and very high likelihood of sustaining operations.
BFR 2++ BFR 2+ BFR 2	Strong. Strong quality of management and client services, and high likelihood of sustaining operations.
BFR 3++ BFR 3+ BFR 3	Good. Good quality of management and client services, and above average likelihood of sustaining operations.
BFR 4++ BFR 4+ BFR 4	Adequate. Adequate quality of management and client services, and average likelihood of sustaining operations.
BFR 5	Weak. Weak quality of management and 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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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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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