



The Pakistan Credit Rating Agency Limited

Rating Report

Venus Securities (Pvt.) Limited | BFR

Report Contents

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

Rating History

Dissemination Date	Rating	Outlook	Action	Rating Watch
15-Dec-2023	BFR 3	Stable	Initial	-

Rating Rationale

Factor	Comment
Ownership	Majority ownership vests with Mr. Asad Abdul Razzaq, having ~99.99% ownership stake in the Company.
Governance	A small two-member board provides governance for VSPL. The board consists of the CEO and his brother, indicating limited governance oversight. Three board committees are present with defined TORs; however, effectiveness is limited due to the composition of the committees.
Management and Client Services	VSPL has an adequately qualified and experienced management team to run its operations. Client services are considered adequate with access to online trading and limited research reports present.
Internal Controls and Regulatory Compliance	An internal audit department exists; however, its scope is limited. The compliance function is directly overseen by the CEO, resulting in effective monitoring.
Business Sustainability	The topline of VSPL is concentrated to equity brokerage, resulting in limited resistance to market variabilities. VSPL earned brokerage revenue of ~PKR 5.3mln during FY23, and incurred loss after tax of ~PKR 5.2mln during the year. The loss stems from administrative expenses of ~PKR 12mln and ~PKR 6mln loss on sale of proprietary investments.
Financial Sustainability	VSPL operates on a zero or low-leveraged capital structure. However, the low equity base of ~PKR 78mln at end-Jun'23 may be improved through internally generated profits or equity injection.

Key Rating Drivers

Venus Securities (Pvt.) Limited ('VSPL' or the 'Company') is primarily engaged in the services of equity brokerage. The Company plans to add commodity brokerage to aid its topline and is targeting retail customers to enhance brokerage revenue. Positive market indicators may result in improved performance for VSPL during the upcoming year. Moving forward, increase in topline diversification is vital for the ratings. Growth of topline and profitability remain important. Moreover, separation of key management roles and retention of key personnel is critical.

Disclosure

Name of Rated Entity	Venus Securities (Pvt.) Limited BFR
Type of Relationship	Solicited
Purpose of the Rating	Broker Fiduciary Rating (BFR)
Applicable Criteria	Methodology Broker Fiduciary Rating(Jan-23)
Related Research	Sector Study Brokerage & Securities(Jan-23)
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Profile

Background Venus Securities (Pvt.) Limited ("VSPL" or the "Company") is a licensed TREC holder of the Pakistan Stock Exchange and a member of PMEX and was incorporated in 2007 under the Companies Ordinance, 1984.

Operations VSPL's operations are concentrated to equity brokerage. It operates out of its head office located at Karachi. The clientele of the Company primarily consists of retail customers, whereas limited institutions are also present.

Ownership

Ownership Structure Mr. Asad Abdul Razzaq is the primary sponsor and owner of VSPL with 99.99% shareholding of the Company. The brother of Mr. Asad, Mr. Qazafi Abdul Razzaq, owns 0.01% ownership.

Stability The ownership is considered stable with the primary sponsor having control of the Company. However, succession planning is limited, resulting in key-man risk.

Business Acumen The primary sponsor- Mr. Asad Abdul Razzaq has a history of research experience in the capital markets, working with some notable names. He has also worked as a head of finance and managed a construction engagement previously, bringing his diversified experience to Venus Securities.

Financial Strength The sponsor has adequate financial strength and may inject equity into the business with the increasing quantum of operations, if the need arises, showcasing his unwavering support to the business.

Governance

Board Structure The board of directors (BoD) of VSPL comprises two board members. One is the CEO, Mr. Asad, while the other is his brother Mr. Qazafi, who is a non-executive director. The board structure may be strengthened with an increase in the size of the board and addition of independent directors.

Members' Profile Mr. Asad has a Masters' degree in Business Administration (MBA) with majors in finance, while his brother Mr. Qazafi has a Bachelors' degree in accounting and finance.

Board Effectiveness There are three board committees in place – (i) Audit Committee (ii) Investment Committee (iii) HR & Remuneration Committee. TORs have been defined for the committees; however, the small size of the board means that oversight of committees is limited.

Financial Reanda Haroon Zakaria & Company are the external auditors of the Company and are in the 'A' category on SBP's panel of auditors. The auditors have expressed an unqualified opinion for the financial statements of FY23.

Management And Client Services

Organizational Structure The Company has a lean organizational structure in place, where all departmental heads report to the CEO. The main departments of VSPL include, i) Internal Audit, ii) Settlement, iii) CDC, iv) Accounts & Finance, v) IT, vi) Research, and vii) Sales. The CEO himself directly performs the research, compliance, and proprietary investment functions.

Management Team The management team has adequate exposure to the capital markets. The departmental heads have had at most 5-6 years with the Company, as a management change occurred during the end of 2017. The senior management is adequately qualified, having at least a bachelors' degree whereas some, including the CEO, have a masters' degree.

Client Servicing The Company offers adequate client servicing along with providing limited research reports to its clients. Additionally, an online portal is available for trading purposes whereas a mobile application is also present.

Complaint Management The Company has established complaint policies and effectively monitors them. Complaints can be lodged via email, SMS and through calls. Moreover, customers may also lodge complaints through the Company's website.

Extent Of Automation / Integration The Company has streamlined its operations through limited ERP deployment and has the ability to generate daily reports for effective monitoring. The back-end and front-end operations have adequate integration.

Continuity Of Operations VSPL has a detailed disaster recovery plan to ensure business continuity at the time of disaster. Moreover, backups are also performed on a daily basis with a separate server present outside the office premises.

Internal Controls And Regulatory Compliance

Risk Management Framework A common risk management and settlements head exists at VSPL. An in-house internal audit department exists with a dedicated internal audit head; however, the scope of the internal audit function is limited. The audit committee is chaired by the CEO, resulting in limited control effectiveness.

Regulatory Compliance The CEO ensures regular monitoring of controls and systems, therefore ascertaining that all functions are in line with the applicable policies and procedures. To be in-line with industry best practices, a separate compliance department with a dedicated head of compliance may be formed.

Business Sustainability

Operating Environment 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. KSE-100 Index has soared to historic highs with a persistent bull-run, whereas volumetric increase has also been observed. Analytical forecasts are positive with good economic indicators for FY24; however, political instability, especially during the upcoming elections, may prove pivotal for the stock market.

Performance The Company has shown limited growth in the topline over the recent years, with losses prevailing due to subdued market interest in FY22 and FY23, indicating limited resistance to market shocks. The Company earned ~PKR 5.3mln during FY23 (SPLY: ~PKR 7.2mln) whereas the Company suffered from a loss on net proprietary investments of ~PKR 5.4mln during FY23 (SPLY: gain of ~PKR 0.7mln). VSPL incurred a loss after tax of ~PKR 5.2mln during FY23 (SPLY: ~PKR 13.4mln).

Strategy VSPL plans to keep focusing on retail customers, while also enhancing its presence within corporate clientele. The Company also plans to leverage its PMEX license and grow its commodity brokerage side, indicating possible growth in the topline.

Financial Sustainability

Credit Risk Credit risk generally arises from two types of transactions. Transactions that are settled within T+2 framework and that are settled beyond T+2 framework. T+2 transactions carry relatively less credit risk. The second transaction exposes the company towards higher credit risk. VSPL has limited customers and the trade debts amounted to just ~PKR 46k at end-Jun'23, decreasing from ~PKR 6mln at end-Jun'22, resulting in negligible credit risk.

Market Risk VSPL maintains a significant proprietary book amounting to ~PKR 61mln at end-Jun'23. The proprietary investment exposes the bottom-line of the Company to market fluctuations. In this regard, VSPL's CEO Mr. Asad himself controls and manages the proprietary investments, effectively managing investments on a timely basis according to market conditions.

Liquidity Risk VSPL has an adequate liquidity profile, with current assets standing at ~PKR 68mln at end-Jun'23 compared to ~PKR 1mln of current liabilities at the same date.

Capitalization The Company operates on a low-leveraged capital structure, aiming to limit its borrowings at all times. On the other hand, the equity base of VSPL is alarmingly close to the regulatory limit of PKR 75mln, standing at ~PKR 78mln at end-Jun'23.

PKR mln

Venus Securities (Pvt.) Limited	Jun-23	Jun-22	Jun-21	Jun-20
	12M	12M	12M	12M

A BALANCE SHEET

1 Finances	-	-	-	-
2 Investments	61	62	58	37
3 Other Earning Assets	8	5	15	3
4 Non-Earning Assets	10	24	73	59
5 Non-Performing Finances-net	-	-	-	-
Total Assets	79	91	147	100
6 Funding	-	3	14	1
7 Other Liabilities (Non-Interest Bearing)	1	5	36	1
Total Liabilities	1	8	51	2
Equity	78	83	96	98

B INCOME STATEMENT

1 Fee Based Income	5	7	5	0
2 Operating Expenses	(12)	(23)	(22)	(14)
3 Non Fee Based Income	3	4	16	17
Total Operating Income/(Loss)	(4)	(13)	(1)	3
4 Financial Charges	(0)	(1)	(0)	(0)
Pre-Tax Profit	(5)	(13)	(1)	3
5 Taxes	(1)	(0)	0	(0)
Profit After Tax	(5)	(13)	(1)	2

C RATIO ANALYSIS

1 Business Sustainability

Pre Tax Margin	-86.1%	-183.2%	-26.6%	997.1%
EBITDA/ Revenue	-58.7%	-152.3%	-3.5%	1077.5%
Profit / (Loss) Before Interest & Taxes / Total Assets	-5.3%	-13.8%	-0.6%	3.0%

2 Financial Sustainability

Total Investments / Equity	78.5%	74.3%	60.3%	38.1%
NCB / Equity	16.1%	59.8%	46.4%	69.0%
LCB/ Total Equity	16.1%	59.8%	46.4%	69.0%
(Cash & Cash Equivalents + Government Securities) / Total Assets	94.8%	24.4%	54.7%	59.6%
Total Debt / Equity	0.0%	3.9%	15.0%	0.0%

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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- 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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- (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)
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- (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)

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- (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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