



The Pakistan Credit Rating Agency Limited

## Rating Report

### Trust Securities & Brokerage Limited | BMR

#### 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	BMR2+	-	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Trust Securities and Brokerage Limited (“TSBL” or the “Company”) is primarily engaged in the provision of equity brokerage services to domestic retail clients. The rating incorporates the Company’s strong governance framework, seasoned management team, and adequate ownership structure. The presence of independent directors strengthens the overall governance framework, resulting in the formation of independently represented board committees. The Company has a well-developed organizational structure with clear reporting lines for respective heads. The control environment is considered sound, reflected by the implementation of relevant internal control policies; however, the depth and scope of internal policies may be enhanced to further strengthen the framework. The compliance and risk management departments operate independently of each other while an outsourced internal audit department provides comfort. Appointment of category ‘A’ auditors may be considered to improve the external control framework. 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. Assessment of earning profile indicates swift escalation parallel with the improvement in traded volumes in FY21 and subsequent decline in FY22. The Company earned a revenue of ~PKR 157mln during 9MFY22 (SPY: ~PKR 221mln). The Company has an equity base of ~PKR 289mln at end-Mar’22 which may be enhanced further for financial sustainability. A low leveraged capital structure provides support to the rating.

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

#### Disclosure

<b>Name of Rated Entity</b>	Trust Securities & Brokerage Limited   BMR
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Broker Management Rating
<b>Applicable Criteria</b>	Assessment Framework   Broker Management Rating(Jun-22)
<b>Related Research</b>	Sector Study   Brokerage & Securities(Jan-22)
<b>Rating Analysts</b>	Afnan Iqbal   afnan.iqbal@pacra.com   +92-42-35869504



### 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.

**Financial 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

**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.

**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.

**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 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

**Business Risk** 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.

**Business Profile** 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.

**Revenue And Profitability Analysis** 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.

### 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 Profile** 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).

**Financial Risk** TSBL has an adequate capitalization level, Net Capital Balance stands at ~PKR 198mln at end-Mar'22 (FY21: ~PKR 245mln), while Liquid Capital Balance stood at ~PKR 200mln at end-Mar'22 (FY21: ~PKR 212mln). The Company's equity stood at ~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  
Public Listed

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	116	267	102	56
4 Non-Earning Assets	264	218	135	157
5 Non-Performing Finances-net	-	-	-	-
<b>Total Assets</b>	<b>487</b>	<b>613</b>	<b>298</b>	<b>243</b>
6 Funding	36	48	-	-
7 Other Liabilities (Non-Interest Bearing)	161	262	93	73
<b>Total Liabilities</b>	<b>197</b>	<b>310</b>	<b>93</b>	<b>73</b>
<b>Equity</b>	<b>289</b>	<b>303</b>	<b>205</b>	<b>170</b>

**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
<b>Total Operating Income/(Loss)</b>	<b>(2)</b>	<b>111</b>	<b>31</b>	<b>(22)</b>
4 Financial Charges	(4)	(5)	(1)	(1)
<b>Pre-Tax Profit</b>	<b>(7)</b>	<b>107</b>	<b>30</b>	<b>(23)</b>
5 Taxes	(7)	(19)	5	(1)
<b>Profit After Tax</b>	<b>(14)</b>	<b>88</b>	<b>35</b>	<b>(23)</b>

**C RATIO ANALYSIS**

**1 Cost Structure**

Financial Charges / Total Operating Income/(Loss)	-183.2%	4.2%	2.7%	-5.4%
Return on Equity (ROE)	-5.9%	44.0%	23.8%	-17.1%

**2 Capital Adequacy**

Equity / Total Assets (D+E+F)	59.5%	49.4%	68.9%	70.1%
Free Cash Flows from Operations (FCFO) / (Financial Charges + Current Maturity of Long Term Debt + Uncovered Short Term Borrowings)	-2.36	16.08	13.05	-25.85

**3 Liquidity**

Liquid Assets / Total Assets (D+E+F)	43.3%	15.8%	22.0%	49.9%
Liquid Assets / Trade Related Liabilities	229.3%	63.2%	103.3%	208.6%

**4 Credit & Market Risk**

Accounts Receivable / Short-term Borrowings + Advances from Customers + Payables to Customers	144.3%	39.4%	84.3%	58.1%
Equity Instruments / Investments	100.0%	100.0%	100.0%	100.0%

**Broker Management Rating**

An independent opinion on the quality of management and services provided by a broker

Scale	Definition
<b>BMR 1A</b>	<b>Excellent.</b> Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
<b>BMR 1++ BMR 1+ BMR 1</b>	<b>Strong.</b> Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
<b>BMR 2++ BMR 2+ BMR 2</b>	<b>Sound.</b> Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
<b>BMR 3++ BMR 3+ BMR 3</b>	<b>Adequate.</b> Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
<b>BMR 4++ BMR 4+ BMR 4</b>	<b>Inadequate.</b> Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
<b>BMR 5</b>	<b>Weak.</b> Weak regulatory compliance and business practices.

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> 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><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
---	---	--	---	---

**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.

**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