

## RATING REPORT

### Taurus Securities Limited

**REPORT DATE:**

January 18, 2021

**RATING ANALYST:**

 Narendar Shankar Lal  
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**RATING DETAILS**

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A	A-2	A	A-2
<b>Rating Outlook</b>	Stable		Stable	
<b>Rating Date</b>	Jan 18, 2021		Dec 3, 2019	

**COMPANY INFORMATION**

<b>Incorporated in 1993</b>	External auditors: <b>Grant Thornton Anjum Rahman</b>
<b>Public Unquoted Company</b>	Chairman of the Board: <b>Muhammad Ismail Usuf</b>
<b>Key Shareholders (with stake 5% or more):</b>	Chief Executive Officer: <b>Syed Zain Hussain</b>
National Bank of Pakistan – 58.3%	
The Bank of Khyber – 30.0%	
Saudi Pak Industrial and Agricultural Investment Company Limited – 8.3%	

**APPLICABLE METHODOLOGY(IES)**

VIS Entity Rating Criteria: Securities Firms (July 2020)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/SecuritiesFirm202007.pdf>

**Taurus Securities Limited (TSL)**

**OVERVIEW OF THE INSTITUTION**

TSL is a public unlisted company incorporated in 1993. The company provides equity brokerage services along with financial/economic data research analysis. The head office of the company is located in Karachi, while a branch office is also present in Peshawar.

**Profile of CEO:**

Syed Zain Hussain holds a bachelor’s degree from South Eastern University in Marketing. He has over 20 years of work experience in stock brokering and fund management. His responsibilities at TSL include managing the overall operations and resources of the company and working with the board in developing & implementing strategies and making major corporate decisions.

**RATING RATIONALE**

Taurus Securities Limited is a brokerage house that is majority owned by National Bank of Pakistan (NBP – rated ‘AAA/A-2’ by VIS), a state owned entity and one of the largest commercial banks in Pakistan. TSL offers both online and physical trading services to its clients.

**Key Rating Drivers:**

**Performance of the brokerage industry is closely linked to the performance of the domestic capital market, which in turn is dependent on overall economic cycles. Improved volumes of PSX with economic recovery post COVID-19 lockdown are expected to support performance of the brokerage industry**

Performance of the equity market was dismal during FY18 and FY19 with dwindling trading volumes largely owing to economic slow-down, increasing interest rate environment and aggressive foreign selling. COVID-19 pandemic further exacerbated the situation and eroded significant value of PSX till March 2020. However, with ease in COVID-19 lockdown, recovery has been observed in the macroeconomic indicators as indicated by improved current account position, currency stabilization, rising forex exchange reserves and a rebound in large scale manufacturing. Economic recovery has translated to improvement in the performance of PSX (both in volume and value terms). Resultantly, brokerage houses have witnessed increase in their incomes with higher trading activity.

PSX Data (Ready + Future)	Volumes (m)	Value (m)
FY18	58,401	2,881,120
FY19	53,515	2,353,988
<b>% change in FY19</b>	<b>-8%</b>	<b>-18%</b>
FY20	68,017	2,551,578
<b>% change in FY20</b>	<b>27%</b>	<b>8%</b>

Recent increase in international commodity prices may put pressure on current account position given the country’s dependence on imports; the same may also result in higher inflation. Nevertheless, encouraging developments on COVID-19 vaccines are expected to generate favorable impact on economic indicators and performance of PSX, going forward. Therefore, equity market and brokerage sector outlook is considered positive over the medium term provided that political situation in the country remains stable.

**Strong sponsor profile**

The assigned ratings draw support from strong sponsor profile with majority shareholding of the company vested with National Bank of Pakistan (58.3%). NBP is a state owned entity and largest public sector bank in the country. Other major shareholders of the company include Bank of Khyber (BoK) (30.0%) and Saudi Pak. Industrial & Agricultural Investment Company Ltd. (SAPICO) (8.3%). Both parties possess sound risk profile. VIS anticipates that support from sponsors would be forthcoming in case need arises. TSL derives support from the parent company in terms of business generation, and presence of seasoned professionals on the Board. The institution can also draw upon

borrowings from NBP secured against hypothecation of receivables through sanctioned credit lines worth Rs. 240m.

**Conservative standalone risk profile**

TSL continues to maintain a conservative stance and is largely engaged in brokerage services. Stock market exposure is limited to ready-future arbitrage transactions that entail no market risk; however, a certain amount of settlement risk prevails. The management participates in Margin Trading System (MTS) on a limited scale. Average exposure on MTS has remained within manageable limits and that also in selective scrips duly approved by the Board. The company requires a margin of 40% from retail clients. Margin requirements are strictly adhered to and shares are held as collateral until full payment. Certain institutional clients are members of Institutional Delivery System (IDS) and their transactions are settled directly with CDC without funding by the broker, thereby mitigating credit risk. As such, the company also limits in place for institutional clients, depending on counterparty risk profile.

**Operating profitability has improved primarily on account of cost rationalization initiatives undertaken by the management**

Although overall recurring income of the company was reported lower in 2020 vis-à-vis 2019, the quantum of operational loss decreased to Rs. 10.6m (2019: Rs. 17.8m) on account of reduction in operating expenses. Management embarked on an extensive cost control plan, which included 1) shift in compensation structure for sales team from fixed to variable 2) ~20% reduction in salaries for all employees. Resultantly, efficiency ratio (cost to income) ratio was reported lower at 111.0% (2018: 116.2%). With growth in recurring income (mainly brokerage income) coupled with controlled increase in operating expenses, operating profit was recorded of Rs. 1.9m (9M'2019: Operating loss of Rs. 15.6m) in 9M'2020. Efficiency ratio improved further to 98.0% (9M'2019: 125.7%) in 9M'2020. Given the favorable equity market outlook over the medium term, management expects improvement trend in profitability to continue going forward. Focus on high margin institutional clients remains a key part of growth strategy, while the management also opines that efforts by SECP to further regulate brokerage industry will provide competitive edge to the company over other brokers that lack formalized structure. Maintaining profitability at adequate levels is considered important from ratings perspective.

**Capitalization indicators and liquidity profile has also depicted improvement**

Equity base (excluding revaluation surplus) of TSL decreased to Rs. 281.1m (2018: Rs. 292.5m) on account of lower unappropriated profits due to IFRS adjustments pertaining to leases and expected credit losses in 2019. However, the equity was reported at Rs. 289.3m at end-9M'2020 due to profit retention. With decrease in short term borrowings, gearing and leverage indicators have decreased to 0.02x (2019: 0.50x; 2018: 0.82x) and 0.87x (2019: 1.14x; 2018: 1.51x), respectively. Liquid assets of the company comprise cash and bank balances, deposits with the clearing house and its investment portfolio. Liquidity profile is considered satisfactory in view of sizeable liquid assets in relation total liabilities (9M'2020: 179.0%; 2019: 150.6%; 2018: 87.9%).

**Taurus Securities Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>		<b>(amounts in PKR millions)</b>		
<b>BALANCE SHEET</b>	<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>30-Sep-20</b>	
Investments	153.4	177.5	169.8	
Deposits & Prepayments	91.9	143.7	34.7	
Trade Debts (Net)	269.2	50.9	41.2	
Cash and Bank balances	144.3	163.6	246.6	
<b>Total Assets</b>	<b>752.7</b>	<b>618.7</b>	<b>568.6</b>	
Trade and other payables	203.1	180.9	250.4	
Short Term running finance	239.6	130.0	-	
<b>Total Liabilities</b>	<b>442.7</b>	<b>321.8</b>	<b>252.0</b>	
Paid up Capital	135.0	135.0	135.0	
<b>Total Equity (excluding surplus)</b>	<b>292.5</b>	<b>281.1</b>	<b>289.3</b>	
<b>INCOME STATEMENT</b>				
	<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>30-Sep-20</b>	
Brokerage Income	96.8	75.9	88.1	
Recurring Revenue	123.0	104.9	94.9	
Administrative Expenses	(124.2)	(103.3)	(90.1)	
Finance Costs	(3.4)	(3.3)	(2.9)	
<b>Operating Gain/(Loss)</b>	<b>(17.8)</b>	<b>(10.6)</b>	<b>1.9</b>	
<b>Profit/(Loss) Before Tax</b>	<b>(4.5)</b>	<b>(1.0)</b>	<b>11.6</b>	
<b>Profit/(Loss) After Tax</b>	<b>(15.7)</b>	<b>0.6</b>	<b>8.1</b>	
<b>RATIO ANALYSIS</b>				
	<b>31-Dec-18</b>	<b>31-Dec-19</b>	<b>30-Sep-20</b>	
Current Ratio (x)	1.6	1.8	2.2	
Liquid Assets to Total Liabilities (%)	87.9%	150.6%	179.0%	
Liquid Assets to Total Assets (%)	51.7%	78.4%	79.3%	
Gearing (x)	0.82	0.50	0.02	
Leverage (x)	1.5	1.1	0.9	
Efficiency (%)	116.2%	111.0%	98.0%	
ROAA (%)	-1.57%	0.09%	1.83%	
ROAE (%)	-4.89%	0.21%	3.80%	

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

**VIS** Credit Rating Company Limited

**RATING SCALE & DEFINITIONS: ISSUES / ISSUERS**

**Medium to Long-Term**

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is moderate but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

**Short-Term**

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

**(blr) Rating:** A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES				Appendix III		
<b>Name of Rated Entity</b>	Taurus Securities Limited					
<b>Sector</b>	Brokerage					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	01/18/2021	A	A-2	Stable	Reaffirmed	
	12/3/2019	A	A-2	Stable	Reaffirmed	
	12/31/2018	A	A-2	Stable	Reaffirmed	
	10/2/2017	A	A-2	Stable	Reaffirmed	
	06/28/2016	A	A-2	Stable	Reaffirmed	
	11/21/2014	A	A-2	Stable	Reaffirmed	
	12/31/2013	A	A-2	Stable	Reaffirmed	
	11/26/2012	A	A-2	Stable	Upgrade	
	12/23/2011	A-	A-2	Stable	Reaffirmed	
	1/3/2011	A-	A-2	Stable	Reaffirmed	
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.					
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.					
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<b>Due Diligence Meetings</b>	<b>S.No</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	1.	Iqbal Rasheed	Chief Internal Auditor	January 11, 2020		