

RATING REPORT

Taurus Securities Limited

REPORT DATE:

January 4, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Outlook	Stable		Stable	
Rating Date	Dec 31, 2018		Oct 2, 2017	

COMPANY INFORMATION

Incorporated in 1993	External auditors: Grant Thornton Anjum Rahman
Public Unquoted Company	Chairman of the Board: Mr. Muhammad Ismail Usuf
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Syed Zain Hussain
National Bank of Pakistan – 58.3%	
The Bank of Khyber – 33.0%	
Saudi Pak Industrial and Agricultural Investment Company Limited – 8.3%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Securities Firms (May 2015)

<http://www.jcrvis.com.pk/Images/Securities%20methodology%201%20-2015.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:

Mr. 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 (TSL) is backed by National Bank of Pakistan (NBP – rated ‘AAA/A-1+’ by JCR-VIS), a state owned entity and one of the largest commercial banks in Pakistan. Other shareholders of TSL include The Bank of Khyber and Saudi-Pak Industrial and Agricultural Investment Company Ltd.

Rating drivers

- **Standalone Risk Profile**

TSL continues to maintain a conservative stance and is largely engaged in brokerage services. There is no proprietary book while stock 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.

- **Sponsor Support**

The company 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; this line was drawn up to Rs. 220.0m at end-June 2018.

- **Profitability**

Barring the one-off gain on sale of PSX shares, the company reported a negative bottom line amounting to Rs. 21.7m vis-à-vis a loss of Rs. 0.8m in FY17. Decline in profitability was largely on account of low brokerage & commission income, a drop witnessed in both institutional and retail income. Moreover, drop in KSE-100 index share turnover impacted retail business commission. Business mix, in terms of share volume handled for retail and institutional clients remained largely unchanged during FY17. The company also concerted efforts in almost doubling its market share despite downtick in the stock market. Nevertheless, efficiency levels of TSL were reported above 100%. Moreover, core revenues of TSL remained lower in the first half of 2018 vis-à-vis corresponding period last year. Ability to maintain profits at sustainable levels will need to be addressed in the coming years. TSL's focus on growing its retail customer base is ongoing; there were plans of revenue diversification which are currently kept on hold on account of the prevailing trend of the stock market.

- **Liquidity and Capitalization**

Despite increase in short term financing, leverage indicators of the business remain at manageable levels. Liquidity of the business varies in line with the position of the stock market. Liquid assets to liability ratio stood at 46.7% at end-December 2017, improving to 109.3% at end-June 2018. The variation in ratio is due to the change in trade payables which differs on account of trading activity which is in line with industry dynamics. Liquid assets of the company comprise cash and bank balances, deposits with the clearing house and its investment portfolio. With a profit of Rs. 38.3m in FY18, equity level of the company increased to Rs. 348.9m (FY16: Rs. 295.4m) at end-FY17 on the back of aforementioned sale of PSX shares. Furthermore, the same has lent support to liquidity indicators.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Taurus Securities Limited**Appendix I**

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	30-Jun-18	31-Dec-17	31-Dec-16
Trade Debts (Net)	205.7	730.7	418.0
Cash and Bank balances	145.6	218.4	357.1
Total Assets	769.6	1,251.2	1169.3
Trade and Other Payables	225.7	792.4	633.5
Short Term running finance	220.0	109.9	240
Net Worth	323.8	348.9	295.4
<u>INCOME STATEMENT</u>	30-Jun-18	31-Dec-17	31-Dec-16
Brokerage and Commission Income	51.4	93.4	98.3
Administrative Expenses	59.4	118.8	109.9
Finance Costs	1.3	2.6	1.8
Profit Before Tax	1.2	51.3	2.2
Profit After Tax	(7.3)	38.3	(0.9)
<u>RATIO ANALYSIS</u>	30-Jun-18	31-Dec-17	31-Dec-16
Commission Income / Turnover (per share)	9.3	15.7	6.5
Liquid Assets to Total Liabilities (%)	109.3	46.7	78.7
Liquid Assets to Total Assets (%)	63.3	33.7	58.8
Debt Leverage (x)	1.50	2.84	2.96
Efficiency (%)	114.4	126.6	111.0
ROAA (%)	-0.9	3.1	-0.1
ROAE (%)	-2.5	12.1	-0.3

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 modest 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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES				Appendix III		
Name of Rated Entity	Taurus Securities Limited (TSL)					
Sector	Brokerage					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	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	
Instrument Structure	N/A					
Statement by the Rating Team	JCR-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.					
Probability of Default	JCR-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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