

RATING REPORT

Topline Securities (Private) Limited

REPORT DATE:

March 24, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	March 22, 2016	

COMPANY INFORMATION

Incorporated in 2001	External auditors: M/s Naveed Zafar Ashfaq Jaffery & Co. – Chartered Accountants
Private Limited Company	Chairman of the Board: Mr. Mohammad Sohail
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Mohammad Sohail
Mr. Mohammad Sohail – 70.91%	
Mr. Haroon Fatani – 22.3%	
Mr. Amir Fatani – 6.8%	

APPLICABLE METHODOLOGY(IES)

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

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

Topline Securities (Private) Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Topline Securities (Private) Limited was incorporated under the Companies Ordinance 1984. The company is a TRE certificate holder of Pakistan Stock Exchange. M/s Naveed Zafar Ashfaq Jaffery & Co., Chartered Accountants audited TSPL’s financial statements for FY15.

Incorporated in 2001, Topline Securities (Private) Limited (TSPL) is principally engaged in provision of equity brokerage services to domestic and foreign clients. Shareholding is split between four individuals; Mr. Mohammad Sohail who is CEO and Chairman of the Board holds 71% shareholding. TSPL operates only through its head office based in Karachi. During the outgoing fiscal year, senior management witnessed changes with appointment of Director Research & Chief Economist and Head of Corporate Finance & Advisory. Furthermore, the company has procured certificate of registration for underwriting and book running from the SECP.

A new Corporate Finance & Advisory function has been formed; revenue generated from advisory services amounted to Rs. 4.0m (FY15: Rs. 3.8m) during 1HFY16. Management intends to utilize its strong corporate relationships with clients to drive revenue growth from this department in future. Further, the company has underwritten two right share issuances during the ongoing fiscal year.

Rating Drivers

- Ratings of TSPL reflect improvement in policy framework of the company with implementation of Board-approved underwriting and investment policies. Further, assigned ratings draw comfort from its conservative stance on underwriting, with overall and per party exposure being limited to 0.75x and 0.30x of total equity, respectively.
- An Underwriting Committee comprising the CEO, CFO and Head of Corporate Finance & Advisory was established in 2015. Investment and Risk Management Committees are also in place. CEO and CFO are present on all three committees while additionally, the CFO is tasked to head the Risk & Compliance functions implying lack of adequate segregation of duties. Management is currently in process of setting a Risk & Compliance department to address this issue.
- Operating revenues of the company have more than tripled over past four years. Further, foreign institutions have grown to represent a sizeable proportion of earnings base; sustainability of which would be tested over time. Given that foreign clientele trade shares of higher value, commission charged to the same is significantly greater. As a result, the company has been able to translate its revenue into substantial profitability levels.
- Accumulation of retained earnings has enabled the company to build its equity base. Capitalization indicators are expected to improve as the company is looking to get listed on the bourse over the coming months. Liquidity generated from additional shares will primarily be utilized for working capital requirements.
- A nominal portion of trading is conducted through futures and margin trading system signaling low credit risk. Proprietary book exposure of TSPL has been limited to ready-future arbitrage transactions; market risk emanating from the same is minimal. Further, gearing and debt leverage is on the lower side at 0.4x and 0.1x as at June 30, 2015. Risk profile of the institution is considered favorable vis-à-vis peers. Liquidity indicators of the institution exhibit variation on account of payables against share trading. Trade debts are created as per normal course of business; adequate client margin monitoring mechanisms ensure that these are recovered in a timely manner. Receivables are significantly concentrated among top 10 debtors; this could lead to credit risk being faced by the client and translate into market risk for the brokerage if client defaults on margin call.
- Ratings of TSPL incorporate the governance structure of the company. To improve its control environment, an Internal Audit (IA) department was formed in 2015. Value derived from activities of IA function is considered limited unless observed weaknesses are addressed. Absence of independent directors on the Board and position of CEO & Chairman being held by same individual insinuates room for improvement with respect to best practices of corporate governance. Managerial responsibility is vested primarily with the CEO indicating key person risk; this is expected to be mitigated by appointment of seasoned professionals at key positions in the outgoing fiscal year.

Outlook

Greater proportion of business from corporate finance & advisory services may aid in diversifying core income. Nonetheless, significant risk stems from dependence on foreign institutions as a source of revenue. However, earnings are expected to sustain given that majority of expenses are variable in nature. Going forward, governance and internal controls are expected to be strengthened as the company seeks to list itself on the local bourse.

Topline Securities (Private) Limited - Profile of Board of Directors**Appendix I**

Name	Profile
Mr. Mohammad Sohail	Mr. Sohail is an entrepreneur possessing almost 22 years of experience in capital markets including research and equity sales. Before joining TSPL, he worked as Director Broking with JS Global Capital Limited and as Head of Research at Invest Capital Investment Bank Limited. He served on the boards of Central CDC Limited. He was also on the board of PSX as well as various committees formed by SECP and SBP. Mr. Sohail holds an MBA degree from the Institute of Business Administration, Karachi.
Mrs. Sabahat Sohail	Mrs. Sabahat Sohail is Director of Topline Securities (Private) Limited with an extensive experience of over 6 years in Pakistan's capital markets. She has been member of TSPL's BoD since August 7, 2014. Mrs. Sabahat holds a Master's degree from University of Karachi. She also holds directorship at Topline Commodities (Private) Limited.
Mr. Haroon Fattani	Mr. Fattani has been a board member for past 9 years and was CEO of TSPL till 2008. He carries over 25 years' experience in Pakistan's capital markets and holds a Bachelor's degree from University of Karachi.

Topline Securities (Private) Limited – Profile of Senior Management**Appendix II**

Name	Profile
<p>Mohammad Sohail – Chief Executive Officer</p>	<p>Mr. Sohail is an entrepreneur possessing almost 22 years of experience in capital markets including research and equity sales. Before joining TSPL, he worked as Director Broking with JS Global Capital Limited and as Head of Research at Invest Capital Investment Bank Limited. He served on the boards of CDC Limited. He was also on the board of PSX as well as various committees formed by SECP and SBP. Mr. Sohail holds an MBA degree from the Institute of Business Administration, Karachi.</p>
<p>Khalid Mehmood – Chief Financial Officer / Company Secretary</p>	<p>Mr. Khalid Mehmood is a commerce graduate and C.A. Finalist. He joined TSPL in November 23, 2009 as Manager Finance & Compliance. He was promoted by management to the designation of Chief Financial Officer and Company Secretary on March 22, 2010. Prior to joining Topline, he was associated with Riaz Ahmad & Company, Chartered Accountants, a member firm of Nexia International. Mr. Khalid Mehmood is a member of Institute of Capital Markets, Pakistan Institute of Public Finance Accountants and the Institute of Corporate Secretaries of Pakistan.</p>
<p>Omar Salah Ahmed – Head of Corporate Finance & Advisory</p>	<p>Mr. Ahmed holds over 15 years of international investment experience. He has previously been associated with Elixir Securities Pakistan (Private) Limited, Alfalah Securities, BMA Capital, KPMG Pakistan & AMZ Securities. Furthermore, Mr. Ahmed was the Chief Investment Officer for Foras International Investment Company, the investment arm of Organization of Islamic Countries. During the course of his career, Mr. Ahmed has had the pleasure of executing some of the largest transactions emanating out of Pakistan. Mr. Ahmed is a part qualified Chartered Certified Accountant and has attended courses at LSE.</p>
<p>Saad Hashmy – Head of Research</p>	<p>Mr. Hashmy possesses 17 years of experience pertaining to research. Previously, he worked for Allied Bank and United Bank Limited as Chief Economist. Mr. Hashmy holds a Bachelor's degree in Economics from London School of Economics & Political Sciences (LSE) and an MBA from Olin School of Business at Washington University, USA.</p>
<p>Samar Iqbal – Head of Foreign Sales</p>	<p>Ms. Samar has over 10 years of experience in equity sales. Prior to joining TSPL, Ms. Samar was associated with JS Global Equity. Prior to this role, she was associated with KASB Direct. She holds an MBA (Finance) degree and has also received Certified Quality Professional Certification from Pakistan Institute of Quality Certification. She was also the recipient of the Best Sales Trader Award by Asia Money in 2014 and 2015.</p>
<p>Muhammad Rizwan – Head of Domestic Sales</p>	<p>Mr. Rizwan has over 10 years of working experience in Pakistan's capital market. Prior to joining TSPL, he worked at ORIX Investment Bank from 2005 to 2009. He holds an MBA degree from KASBIT, Karachi.</p>
<p>Mohammad Shabbir – Head of Internal Audit</p>	<p>Mr Mohammad Shabbir has vast experience of more than 23 years pertaining to Pakistan's capital markets. He has remained associated with leading brokerage firm in past two decades and has extensive experience of back office settlement, bank dealings, custodial matters, depository operations, internal audit and clearing functions. Mr. Shabbir has attended many training sessions, seminars and lectures organized by KSE, ICAP, etc.</p>
<p>Mohammad Yaqoob – Head of Settlement</p>	<p>Mr. Mohammad Yaqoob has over 23 years of experience in settlement functions at various brokerage firms. He has been with TSPL since July 2009. Previously, Mr. Yaqoob was associated with Capital One Securities (Pvt.) Limited. Mr. Yaqoob is a holder of ICM Fundamentals of Capital Markets & Pakistan Capital Market Certification.</p>

FINANCIAL SUMMARY (amounts in PKR millions)			Appendix III
<u>BALANCE SHEET</u>	30-Jun-15	30-Jun-14	30-Jun-13
Trade Debts	70.4	121.9	163.1
Investments	24.8	78.4	0.0
Cash and Bank balances	54.8	41.4	21.0
Total Assets	451.2	421.7	377.3
Trade and Other Payables	85.4	95.4	145.9
Long Term Loans	0.0	0.0	0.0
Short Term Loans - Secured	19.3	75.4	5.9
Net Worth	332.0	244.4	215.1
<u>INCOME STATEMENT</u>	30-Jun-15	30-Jun-14	30-Jun-13
Total Revenue	284.6	137.2	117.8
Brokerage Income	258.0	119.7	104.0
Advisory Income	3.8	0.0	0.0
Administrative Expenses	150.6	61.5	53.4
Finance Costs	7.9	1.6	3.6
Profit Before Tax	124.9	74.1	60.9
Profit After Tax	87.6	49.4	41.4
<u>RATIO ANALYSIS</u>	30-Jun-15	30-Jun-14	30-Jun-13
Market Share (Share Turnover) (%)	2.9%	2.2%	2.9%
Market Share (Value Traded) (%)	3.4%	2.7%	4.1%
Commission Income / Turnover (Paisa/Share)	16.09	4.72	3.70
Liquid Assets to Total Liabilities	66.8%	34.6%	13.0%
Liquid Assets to Total Assets	17.6%	14.5%	5.6%
Debt Leverage	0.4	0.7	0.8
Gearing	0.1	0.3	0.0
Efficiency (%)	56%	49%	50%
ROAA (%)	20%	12%	14%
ROAE (%)	30%	22%	21%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix IV

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

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.

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.

(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.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.

REGULATORY DISCLOSURES		Appendix V			
Name of Rated Entity	Topline Securities (Private) Limited				
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
	RATING TYPE: ENTITY				
	22-Mar-16	A-	A-2	Stable	Initial
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.				
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